

**FFECTIVENESS OF THE CUSTOMER RETENTION STRATEGIES APPLIED
BY COMMERCIAL BANKS IN KENYA**

BY

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REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF
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DECLARATION

This Project is my original work and has not been presented in for any other University.

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This Project has been submitted for examination with my approval as University Supervisor.

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DEDICATION

I dedicate this work to my dad Gedion Mecha, my late mum Alice who supported me from the start and ensured that i submitted my proposal on time before she passed on and my siblings who gave me the challenge to finish the course.

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I am indebted to the all-powerful almighty God for all the blessings; He showered on me and for being with me throughout the study. Most of all I would like to thank the Almighty God for the care, strength and good health during my study period.

ABSTRACT

This study was designed to establish the strategies adopted by commercial banks in Kenya to retain customers and to determine the management perception of the effectiveness of customer retention strategies adopted by commercial banks in Kenya to retain customers. A descriptive research design was employed in this study. The population of interest comprised of all 44 commercial banks in Kenya. Total 44 managers involved in strategy implementation shall be picked to represent the entire population. The sample size is preferred because its manageable. A semi-structured questionnaire composed of three sections was used to collect primary data where the respondents were accessed through an interview and drop-and- pick later method. A five point likert-type scale was used to measure the extent of satisfaction on effectiveness. Data was collected and analyzed using SPSS package. Descriptive statistics were used to describe and analyze the extent of effectiveness between the various strategies applied. The study found that commercial banks applied product innovativeness to a very great extent. In addition, commercial banks applied long working hours, cross selling, employee training and customer relationship management to a great extent. The study established that long working hours, employee training, product innovativeness and cross selling was perceived as more effective. Loyalty programmes, quality service based on the findings of the study as summarized above, it can be concluded that commercial banks in Kenya various retention strategies. Success in retaining customers was attributed to a combination of strategies being pursued. The study concludes that long working hours, employee training, product innovativeness and cross selling were strategies perceived as effective in retaining customers. Strong brands have the ability to attract and retain customers. Commercial banks to adopt customer retention strategies and ensure they are effective. Firms need to analyze their customers before coming up with strategies of retaining them. Banks need to come up with ways of rewarding the sales force for retaining customers. Organizations should endeavor to create value for their customers.

TABLE OF CONTENT

DECLARATION.....	ii
DEDICATION.....	iii
ABSTRACT.....	v
LIST OF FIGURES	viii
LIST OF TABLES	ix
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.1.1The Concept of Strategy	2
1.1.2 Concept of Effective Strategy	3
1.1.3 Banking Industry in Kenya.....	4
1.1.4 Commercial Banks in Kenya.....	5
1.2 Research Problem.....	7
1.3 Research Objectives	8
1.4 Value of the Study.....	8
CHAPTER TWO: LITERATURE REVIEW	10
2.1 Introduction	10
2.2 Competitive Environment	10
2.3 Competition Rivalry.....	13
2.4 Customer Retention Strategies	16
2.5 Empirical Studies	20
CHAPTER THREE: RESEARCH METHODOLOGY	22
3.1 Introduction	22
3.2 Research Design.....	22
3.3 Study Population	22
3.4 Data Collection.....	23
3. 5 Data Analysis	23
CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION.....	25
4.1 Introduction	25

4.2 Response Rate and the Rate of Return	25
4.3 Demographic Information	26
4.4 Customer Retention Strategies	28
4.5 Perception of the Effectiveness of Customer Retention Strategies	30
4.6 Discussion of the Findings	33
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECCOMENDATIONS	36
5.1 Introduction	36
5.2 Summary of the findings	36
5.3 Conclusion of the study	37
5.4 Recommendations of the study	38
5.6 Suggestions for Further Research	40
REFERENCES.....	41
APPENDIX ONE: QUESTIONNAIRE.....	45

LIST OF FIGURES

Figure 4. 1: Age of the bank	26
Figure 4. 2: Extent that customer retention strategies were effective.....	27

LIST OF TABLES

Table 4. 1: Period the respondents had been working with the bank	27
Table 4. 2: Customer Retention Strategies applied by Commercial Banks	30
Table 4.3: Perception of the Effectiveness of Customer Retention Strategies	33

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Retaining customers remains key in giving a competitive edge in the banking industry. Bank management must identify and improve upon factors that can increase customer retention. Through the edge of technology, it is easy for personnel to reach the customers through proper feedback process and efficient staff. With technology, most banks have introduced call centers that are on the operation for 24 hours. These centers are out to understand the customer needs better. With the rise in competition, firms will have to use the best strategies or implement on the already available strategies for them to increase or maintain their market share. Kibera & Waruingi (1998), explain that most organizations have in the face of these challenges adopted various strategies to remain relevant and more so in meeting the customer requirements.

A study by Muchira (2005) contends that the expanding business environment has led to increased choice for consumers, lower prices, lower margins, dramatically changing global infrastructures, market economies' expanding that is deregulation and privatization, telecommunications infrastructure, investment from analog to digital. Increased expectation has necessitated strategic changes in the way organizations run their business and relate to their customers, that is the overall internal and external environment (Siboe, 2006)

1.1.1The Concept of Strategy

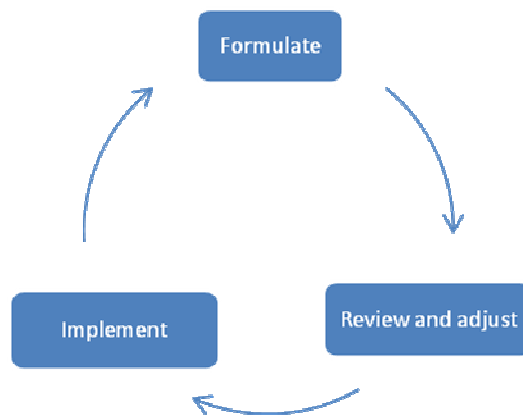
Johnson & Scholas(2005) define strategy as the direction and scope of an organization over the long term through configuration of resources within the changing environment, to meet the needs of marketers and fulfill stakeholders' expectations. Kangarro (1998), defines strategy as the underlying concept in strategic management. It is about winning and it serves as a unifying theme that gives coherence and direction to the actions and decisions of an individual or an organization. Quinn (1980) defines strategy as a pattern or plan that integrates organization`s major goals, policies and action sequences into a cohesive whole. Thompson et al (2007) contends that a company`s strategy represents a managerial plan for running the business and conducting operations. In the end, the strategy by which the sustainable competitive advantage is gained is known as business level strategy of the organization (Hill & Jones, 2001)

A strategy or general plan of action might be formulated for broad, long term, corporate goals and objectives, for more specific business unit goals and objectives, or for a functional unit, even one as small as a cost center. Such goals might or might not address the nature of the organization, its culture, the kind of company its leadership wants it to be, the markets it will or won't enter, the basis on which it will compete, or any other attribute, quality or characteristic of the organization. Strategy and tactics relate to how a given end is to be attained. Together, strategy and tactics bridge the gap between ends and means. Resources are allocated or deployed and then employed in the course of executing a given strategy so as to realize the end in view. The establishment of the ends

to be attained does indeed call for strategic thinking, but it is separate from settling on the strategy that will realize them (Nickols, 2011).

1.1.2 Concept of Effective Strategy

Strategic effectiveness is a way of thinking and acting as an organization to ensure the achievement of its vision, mission, and goals. This effectiveness is the outcome of a three-stage process depicted by the graphic below.



According to Rhodes (2010) an effective strategy is deeply understood and shared by the organization. An effective strategy provides a picture of the desired long term future. In order to make sound day to day decisions, all members of the organization must be able to begin with the end in mind. All steps must ultimately keep the company on course toward the long term objective.

A rigid strategic direction seldom turns out to have been the best course of action. To assure that your business is nimble and able to react to changes in the marketplace, it is essential that your strategy is flexible and adaptable. As a strategist, you will count on timely and accurate information about market conditions. It is essential to build and

employ effective mechanisms for observing and listening to what is going on in the competitive environment. Real-time information, in turn must feed on-going strategic and operational shifts and deployments (Rhodes, 2010).

Effective strategy results from the varied input of a diverse group of thinkers. Participants in strategic decision-making must be unafraid to state contrary opinions. An effective strategy follows a thorough and deep analysis of both the external environment and the internal capabilities of the organization. This is the essence of the famous SWOT model (Strengths, Weaknesses, Opportunities and Threats). The strategist must understand the effects and dynamics of external entities such as competitors, suppliers, regulators and strategic partners. An effective strategy identifies areas of Competitive Advantage. Every strategic plan must educate the full organizational team how it must use carefully identified competitive advantages in order to compete and win (Rhodes, 2010).

1.1.3 Banking Industry in Kenya

Over the last few years, the Banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African community region and the automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional ‘off-the-shelf’ banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. (Price Water Coopers Report, 2008)

In Kenya, the banking industry is governed by Companies Act, The Banking Act, The Central Bank Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). Central Bank of Kenya falls under the Ministry of Finance docket and is responsible for implementation and formulation of monetary policy and fostering liquidity, solvency and proper functioning of the financial system. The banks have come together under the Kenya Bankers Association (KBA), which serves as the lobby for the banking sector's interests (Price Water Coopers Report, 2008).

There are major challenges affecting the banking industry in Kenya like the new regulations especially with the passing of the new constitution. Central Bank of Kenya requires financial institutions to build up their minimum core capital requirement to Kenya shillings 1 Billion by December 2012. The Terrorist attacks on the twin towers in United States of America emphasized and led to the mandating Acts like Anti-money laundering. Nations are working closing to ensure that proceeds of crime do not get into the financial systems of the world. The Global crisis experienced affected banking industry in Kenya and more so the mobilization of deposits and trade reduction and the Interest margins declines have also affected the banking industry in Kenya (Central Bank of Kenya report, March 2011).

1.1.4 Commercial Banks in Kenya

Kenya currently has 44 licensed commercial banks and one mortgage finance company. Of these 44 institutions, 31 are local owned, and 13 are foreign owned. The commercial banks in Kenya are now operating in a more competitive business environment than before, and the importance of strategic management cannot be overemphasized, because it determines how an organization reacts to competition and other business environmental

challenges. The way a commercial bank reacts strategically, to this challenges will determine its survival and even prosperity.

A study by Akoth 2011 explains that most of the banks in Kenya are greatly affected by the uncertainty in the policy environment concerning the control or regulation of interest rates and related bank fees .There is an inadequate contract enforcement and property right protection which affects the banks performance. There is lack of monitoring and enforcement tools in the banking industry in Kenya .The study noted that most of the banks in Kenya adjust their lending rates depending on the charges in the market interest rates. Due to the advancement in technology, the extent to which banks are investing new equipment and upgrade their systems was rated to a great extent with a view of keeping in phase with the technical progress. The findings also highlighted that majority of the respondents have developed links to the global network through the internet (62.6%) this could be due to the fact that most of transactions are now done online and banks are increasingly becoming interconnected with one another.

Pelsmacker et al (2005) acknowledges the importance of establishing customer loyalty in lieu of getting new customers. In the wake of the changing dynamics in the financial services sector, commercial banks in Kenya have the uphill task of retaining key value customers, acquiring new customers, building their confidence and maintaining a robust financial performance. Corporate customers who initially would shy away from switching banks are willing to do so if banks ignore the need to hone their service quality (Farquhar, 2004 and Lam & Burton, 2006).

1.2 Research Problem

Management takes cognizance of the importance of Customer retention in the context of a saturated market or slow increase of new customers. Competitive pressures push other financial service firms to actively target the consumer. In order to stay ahead of competition banks should continuously scan the environment aggressively and also speed up implementation of its strategies (Ennew & Binks, 1996; Woodruff, 1997).

The Kenyan banking industry has been facing challenges in customer retention amidst the increasing number of banks and environmental changes. Customers are hopping from one bank to another in the hope of finding the one that fit their needs. Despite the strategic effort to build and promote good customer relationship, customer retention still remains a vital managerial issue.

Numerous studies have tried to examine the effectiveness of customer retention strategies. Abishua (2010), Adour(2011), Kipkenda (2011), Kirigo(2010), and Njuguna (2010) recommend that banks should enhance the implementation of the strategies that are most effective like customer service and product differentiation in order to remain relevant in the competitive market. Effectiveness of the implemented customer retention strategies still remains an issue to be tackled. This study, therefore, seeks to investigate the effectiveness of the customer retention strategies adopted by commercial banks in Kenya. It is necessary to seek answers to these questions: which retention strategies do commercial banks in Kenya adopt? What perceptions do bank managers have on effectiveness of customer retention strategies?

1.3 Research Objectives

This study was guided by the following objectives:

- i. To establish the strategies adopted by commercial banks in Kenya to retain customers
- ii. To determine the management perception of the effectiveness of customer retention strategies adopted by commercial banks in Kenya to retain customers.

1.4 Value of the Study

It is less expensive to manage and retain existing customer base and sell better service to them as opposed to a new customer, who might vanish after the first transaction. Use of inappropriate retention strategies has led to poorly managed organizations leading to poor profits. The findings of this study would enable use of appropriate strategies that would enable banks to compete effectively.

The policy makers would obtain knowledge on appropriate customer retention strategies to make them relevant in the market in addition, using this research as a guiding tool in developing enabling policies regulating the banking sector. The banking sector would therefore be guided by appropriate policies that would enable them to compete effectively.

The study would have a symbiotic benefit to the bank and the customer. The findings would enable the bank to identify both the effective and ineffective customer retention strategies. The information would also benefit customers as management would be more

customer need oriented leading to customer satisfaction hence retention. Good customer management would lead to reduced costs and also enable management to make strategic decisions to outsmart the competitors and also to remain relevant in the market. Customers would be able to receive quality services leading to increased royalty.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The literature review gives detailed information that is relevant to the study from various fields. This section has been guided by the research problem which is to find out the manager`s perception of the effectiveness of customer retention strategies applied by commercial banks in Kenya. It is composed of competitive environment, competitive rivalry, customer retention strategies and empirical studies.

2.2 Competitive Environment

All organizations are situated in an environment, be that of business, governmental, educational, or voluntary service. In this environment are other organizations and people with whom transactions have to take place. These will include suppliers, clients or customers, and competitors. In addition, more general aspects of the environment will have important effects, such as legal, technological, and ethical developments.

Today`s competitive environment maximizes customer retention probability so as to sustain the company`s protection against inroads competition. Customer retention is needed to achieve this goal. Ramakrishnan (2006) defines customer retention as the marketing goal of preventing customers from going to the competitor. Customer retention is the way in which organizations focus their efforts on existing customers in an effort to continue doing business with them (Mostert et al., 2009). However, customer retention can also mean the number of customers who stay with the provider in the course of an

established period, such as a year (Dawes, 2009). Customer retention is a key factor in determining the success of businesses today. Fluss (2010) notes that competitors are always on the lookout to steal customers through better deals. Fluss has observed that annual customer attrition rates range from 7% in industries that have high exit barriers such as banking and insurance, to almost 40% in the mobile phone industry. It can, therefore, be concluded that customers in the cellular industry keep on switching network providers for better deals.

In a highly competitive market, the shortest route to differentiation is through the development of brands and active promotion to both intermediaries and final consumers (Parasuraman, 1997). In the long run, however, branding, targeting and positioning would all be much more effective if the supplier had some tangible advantage to offer consumers (Baker, 1993). This is evident in the banking industry, where many banks are providing more or less the identical products for nearly the same price. Unless a bank can extend its product quality beyond the core service with additional and potential service features and value, it is unlikely to gain a sustainable competitive advantage (Chang, Chan & Leck, 1997). Thus, the most likely way to both retain customers and improve profitability is by adding value via a strategy of differentiation while increasing margins through higher prices (Baker, 1993).

Today's customers do not just buy core quality products or services; they also buy a variety of added value or benefits. This forces the service providers such as banks to adopt a market orientation approach that identifies consumer needs and designs new products and redesigns current ones (Ennew & Binks, 1996; Woodruff, 1997). Further, competitive pressures then push other financial service firms to actively target the

consumer. In order to stay ahead of competition banks should continuously scan the environment aggressively and also speed up implementation of its strategies.

Various writers in 2006 were concerned to analyze how the need to function successfully in different environments has led organizations to adopt different structures and strategies. Burns (2006) examined the effects of rapidly changing technological developments on the attempts of old established firms to adjust to new environments. Lawrence & Lorsch (2006) emphasized that it is the appropriateness of an organization's structure in relation to its environmental requirements which is the basis of effectiveness. Pfeffer & Salancik (2006), argued for a resource dependence perspective which sees all organizational functioning as resulting from the organization's interdependence with its environment. Miles & Snow (2006) highlighted the strategic choices that managements have to make to adapt to the environmental pressures they face, whereas Hannan & Freeman (2006) took an ecological and evolutionary view of the chances of organizations surviving in their particular environments. Hofstede (2006) on the other hand highlighted national culture as it affects management values and processes. This environmental feature is particularly important in the ever more frequent international activities of organizations. In 2006 again, Whitley examined business structures in many countries and related them to the societal institutions in which they operate.

For a proper understanding of organizational functioning, according to Miles & Snow (2005) the way to a successful organization is to align itself with the environment. To align organization and environment successfully, management has to solve three problems, and solve them continuously: the entrepreneurial, engineering, and

administrative problems. The entrepreneurial problem is to choose a general market domain, or field of operation, in which the organization can be viable; to specify the precise target market; and to decide on the right products or services for it.

Fluss (2010) notes that competitors are always on the look out to steal customers through better deals. Fluss has observed that annual customer attrition rates range from 7% in industries that have high exit barriers such as banking and insurance, to almost 40% in the mobile phone industry. Customer retention has a direct impact on long term customer lifetime value, which is a more profitable avenue for firms that seek to pursue growth and sustainability or those that seek to protect themselves from market shrinkage resulting from a contracting economy (Gee et al., 2008). Supporting this argument, Lombard (2009) notes that today the pressure on companies to retain customers is fuelled by the market where customer acquisition is low.

2.3 Competition Rivalry

Competitive behavior, defined as the pursuit of assets perceived to be scarce and contested, is ubiquitous (Deutsch, 1949). In domains as varied as business, politics, sports, and nature, individuals and other entities compete for limited resources, status, and survival (Hirshleifer, 1978). Competitive behavior is not only seen as a means by which an individual entity can benefit: in the market setting, it is also a primary mechanism for creating value (Smith, 1776). Despite these advantages, the motivation to compete can sometimes have pernicious effects, e.g., the adoption of unethical strategies like sabotage (Hoffman, Festinger, & Lawrence, 1954; Mui, 1995; Münster, 2007). Paradoxically, competitive motivations may lead to strategies that harm not only

one's adversary, but also oneself (Garcia, Tor,& Gonzalez, 2006; Güth, Schmittberger, & Schwarze, 1982; Ku,Malhotra, & Murnighan, 2005).

Ku et al. (2005) for example, found that the desire to beat rival bidders can lead auction participants to pay more than an item is worth to them (cf.,Cox, Smith, & Walker,1992). Likewise,Malhotra, Ku & Murnighan (2008)suggest that the desire to “win” can lead disputants to pursue costly litigation even when a less antagonistic strategy would lead to better out-comes.

In many industries firms constantly have to defend themselves against rival attacks on their competitive position (Smith et al., 1991, 2001). In turn, their actions may provoke retaliation from their rivals, further fuelling competition (Chenet et al., 1992; Yu And Cannella,2007). The outcomes of competitive interactions determine competitive advantage and thus profitability (Chen & Hambrick, 1995; Ferrier, 2001), so understanding their underlying mechanisms is central to competitive analysis and strategic management research in general (Chen, 1996; Ketchen et al., 2004; Smith et al.2001).

In the past two decades competitive dynamics research has analyzed competitive behavior between rival firms at the level of individual competitive actions (Ketchen et al., 2004; Hutzschenreuter & Israel, 2009). Focusing on action-reaction dyads, i.e. matching pairs of actions and responses, scholars found evidence that firms are affected by their rivals' actions (Smith et al., 1992; Chen et al., 1992; Chen &MacMillan, 1992; Chen et al.,

2007). The action-reaction dyad is useful in providing a clear link between individual actions and responses, but it implies two strong assumptions, as first noted by Hsieh & Chen (2010): First, managers perceive actions by rival firms individually and not to evaluate them jointly. Second, each response is targeted towards an individual rival action, not towards several rivals at once. These assumptions are useful in situations with few similar rivals, but in industries with many heterogeneous players this concept of competition may be too narrow. Consequently, we ask if competitive actions by multiple rivals also jointly influence firm actions (Hsieh & Chen, 2010). Specifically, we ask whether firms' competitive moves are influenced by the gradual buildup of actions by multiple rivals over time and if there are differences between reactions within the same strategic group and across different groups. Based on the awareness-motivation-capability (AMC) framework (Chen & Miller, 1994; Chen, 1996) we propose that as they observe an increasing buildup of rival moves their firms' "last action managers perceive increasing competitive pressure", i.e. a perceived necessity to take competitive action.

Drawing on work on rivalry in strategic groups we study the moderating effect of strategic group membership on their reactions to multiple rivals (Porac & Thomas, 1990, Reger & Huff, 1993; Ferrier et al., 1999; Chen & Hambrick, 1995). Managers' cognitive constructions of the competitive landscape they perceive actions by strategically similar rivals as especially salient, leading to greater competitive pressure (Porac et al., 1995, Nath & Gruca, 1997). We address these questions by examining action magnitude as a central attribute of competitive moves (Smith et al., 1992), using data on tariff setting in the German cellular telephony market. We also find that the effect of rival actions on action

magnitude is moderated by firm type: challengers react more strongly to rival challenger's actions, and incumbents react to rival incumbents' actions.

Competitive pressure and the link to rivalry in strategic groups therefore provide a promising new perspective on competitive dynamics. By analyzing firms' reactions to multiple rivals this study complements Hsieh & Chen (2010) in introducing a new perspective of competitive interactions. It also contributes to theory by discussing how awareness, motivation and capability influence competitive pressure, thus extending the AMC framework to rivalry between a firm and groups of competitors (Chen & Miller, 1994; Chen, 1996). Finally, it provides a further link between competitive behavior and strategic group research by demonstrating that firms react differently to rival actions from within or outside their own strategic group (Cool & Dierickx, 1993; Porac & Thomas, 1994; Porac et al., 1995; Smith et al., 1997; Leask & Parker, 2007).

2.4 Customer Retention Strategies

Firms have adopted various retention strategies depending on the type of business and the environment they find themselves in. Some opt for quality service, some switching barriers while others try to venture into customer retention programmes. According to Pearce & Robinson (1999) a strategy is a large scale, future-oriented plans for interacting with the competitive environment to optimize achievement of organizational objectives. Strategy is the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets and fulfill stakeholder expectations` (Johnson & Scholes, 2003).

Success in retaining customers is attributed to a combination of strategies being pursued such as: Define measure retention; Looking for loyalty in the right places with a focus of getting the right customers and not just a lot of them; Changing the channels of distribution; Minimizing adverse selection of customers through creative filtering; Rewarding the sales force for retaining customers ,not just winning new customers; Paying for continuity, not just conquests, and this may involve using coupons or vouchers to discriminate and reward customers that re-buy; Designing special programmes to attract and hold the most valuable customers. Basically, giving a differentiated attention (Richheld, 1996).

Lions (2010) argued that customer service is one of the surest ways of retaining customers. It means that your customers feel that you understand them and their needs outstanding service is what customers require and if this is offered then the customers feel worth of the relationship .A successful business is defined by the relationship it has with its customers. Relationships with customers should be caring and ongoing. This ensures touch and personal relationship you established when the first contact with the customer will be sustained (Jill & Lowenstein, 2007).

According to Mermann (2007) when you differentiate your products you make your competitor irrelevant and in so doing you guarantee sales for your business that ensuring your survival. Services can be differentiated through speed, performance, quality, responsiveness and availability. Neil (1998) notes that strong brands have the ability to attract and retain customers. Thus all organizations should endeavor to have strong

brands so as to enhance their branding in order to build product recognition and loyalty that further enhances customer value. According to Neil, cross selling means selling more products to customers one has already acquired. In cross selling it means that the organization must view itself as a whole so that it can see all the possible relationships involved. Where this relationships intersect a lot of relevant solutions for the customer can be given and this way a customer who would have otherwise left for competition stay and buys more products.

According to Payne & Frow (2005), Customer relationship management (CRM) is important to commercial banks to acquiring new customers, retain the existing ones and maximize the lifetime value. Customer relationship management enhances the value to the customer. They further argue that every organization should endeavor to create value for their customers. In doing this they are making the customer feel appreciated and that they are understood and their need will be met. A CRM system allows every detail of the customer to be stored and shared with other in the organization thus significantly impacts on the quality of customer service.

Relationship marketing has gained popularity with growth of technology. According to Dortyol (2009) & Heiman (2005), a key principle of relationship marketing is the retention of customers through varying means and practices to ensure repeated transaction from the already existing customers. This is done when the company is able to meet the expectation of the customer's way beyond what the competition offers. Relationship marketing involves understanding the needs, goals and desires of the key stakeholders that include the customers, employees and marketing partners and all these have a direct impact on the success of the firm.

Studies done from different fields suggest the following strategies for customer retention. From the service marketing perspective, the way to retain customers is to improve customer service quality and satisfaction (Berry & Parasuraman, 1991; Zeithaml & Bitner, 1996). From the industrial marketing perspective, the way to retain customers is by forging multi-level bonds comprising financial, social and structural bonds. Turnbull & Wilson (1989) examined, through a case study, the potential benefits of protecting profitable customer relationships through not just social, but also structural bonds in the context of industrial marketing. From a general management perspective, DeSouza (1992), Rosenberg & Czepiel (1984), and Reichheld (1996) offer theoretical positions drawn from their observation and consulting experience. DeSouza (1992) advocates retention measurement and the implementation of measures of preventing customers from defecting by learning from former customers, analyzing complaints and service data, and identifying and raising barriers to customers' switching.

Rosenberg and Czepiel (1984) advocate an analysis of the firm's customer portfolio with a view to creating a specified balance of them which may include the first time buyers, repeat buyers, switched away then return, and last time buyers, and reorganizing the firm for customer retention. Reichheld (1996) advocates the pursuit of a three-pronged approach of keeping investors, employees and customers and the adjustment of the firm's mission, which should be about creating value for its three above mentioned constituencies. His idea rests on the notion that disloyal employees are not likely able to build an inventory of loyal customers, and disloyal investors do not support long term relationship programmes.

2.5 Empirical Studies

Previous studies have identified the benefits that customer retention delivers to an organization (Colgate et al., 1996; Reichheld and Sasser, 1990; Storbacka et al., 1994). For example, the longer a customer stays with an organization the more utility the customer generates (Reichheld & Sasser, 1990). This is an outcome of a number of factors relating to the time the customer spends with the organization. These include the higher initial costs of introducing and attracting a new customer, increases in both the value and number of purchases, the customer's better understanding of the organization, and positive word-of-mouth promotion. Apart from the benefits that the longevity of customers brings, research findings also suggest that the costs of customer retention activities are less than the costs of acquiring new customers. For example, Rust & Zahorik (1993) argue the financial implications of attracting new customers may be five times as costly as keeping existing customers. However, maintaining high levels of satisfaction will not, by itself, ensure customer loyalty. Banks lose satisfied customers who have moved, retired, or no longer need certain services. As a consequence, retaining customers becomes a priority. Previous research shows, however, that longevity does not automatically leads to profitability (Colgate et al., 1996).

On the other hand, Beckett et al. (2000) draw tentative conclusions as to why consumers appear to remain loyal to the same financial provider, even though in many instances they hold less favorable views toward these service providers. For example, many consumers appear to perceive little differentiation between financial providers, making any change essentially worthless. Secondly, consumers appear to be motivated by convenience or

inertia. Finally, consumers associate changing banks with high switching costs in terms of the potential sacrifice and effort involved. Clearly, there are compelling arguments for bank management to carefully consider the factors that might increase customer retention rates, with research providing ample justification for customer retention efforts by banks (Marple & Zimmerman, 1999; Fisher, 2001).

However, there has been little empirical research that investigates the constructs leading to customer retention. Previous empirical work has focused on identifying constructs that are precursors to customer retention. Other studies have focused on developing measures of customer satisfaction, customer value and customer loyalty without specifically looking into other potential meaningful constructs. Examples of such constructs are competitive advantage, customer satisfaction, switching barriers, corporate image, and bank services characteristics. These form the basis for the present investigation. There have been few, if any, attempts to link them to customer retention. This is curious, for if retention criteria are not well managed, customers might still leave their banks, no matter how hard bankers try to retain them.

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CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter discusses the research design, study population, sample size, data collection and data analysis techniques that used in the study and other related issues.

3.2 Research Design

A descriptive research design was employed in this study. This design was preferred because it is carried out in natural settings. A survey was used to collect the customer responses on the effectiveness of retention strategies applied by banks. It was a cross sectional survey due to the time limit. According to Mugenda (1999), a survey research seeks to obtain information that describes existing phenomena by asking individuals about their perceptions, attitudes, behavior or values .Survey research is therefore a type of descriptive research.

3.3 Study Population

The population of interest comprised of all commercial banks in Kenya. There are a total of 44 commercial banks in Kenya with each having a number of branches and most of their headquarters based in Nairobi. Some of the banks are national while others are international applying global strategies. The respondents were managers from each of the banks who were interviewed to determine their perception of the effectiveness of retention strategies applied by their banks. Therefore this study applied census.

3.4 Data Collection

A semi-structured questionnaire (see appendix 1) composed of three sections was used to collect primary data where the respondents were accessed through an interview and drop-and- pick later method. The first section of the questionnaire comprises of the demographic information of the manager while the second section focuses on factors customer retention strategies applied by commercial banks in Kenya. The third section is about the effectiveness of customer retention strategies applied by commercial banks in Kenya.

A five point likert-type scale was used to measure the extent of satisfaction on effectiveness as shown in appendix 1. A likert-type scale is a verbal scale where respondents indicate the degree of agreement or disagreement with a number of statements about an object of interest according to (Bannock, 2002). The respondents; managers who have been involved or responsible for developing strategy was assessed on the strength of opinion where 1 is the least and 5 the most effective. The research design is appropriate because as it enables the researcher to identify the effectiveness through the various responses.

3. 5 Data Analysis

Data was collected and analyzed using SPSS package. Frequency distribution tables and percentages were used to compare the data. Bar charts and pie charts were used to illustrate pictorial presentation. Weight of response was assessed using means and standard deviations and conclusions. Descriptive statistics were used to describe and

analyze the extent of effectiveness between the various strategies applied. Descriptive statistics were applied to populations, and the properties of populations, like the mean or standard deviation, are called parameters as they represent the whole population.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

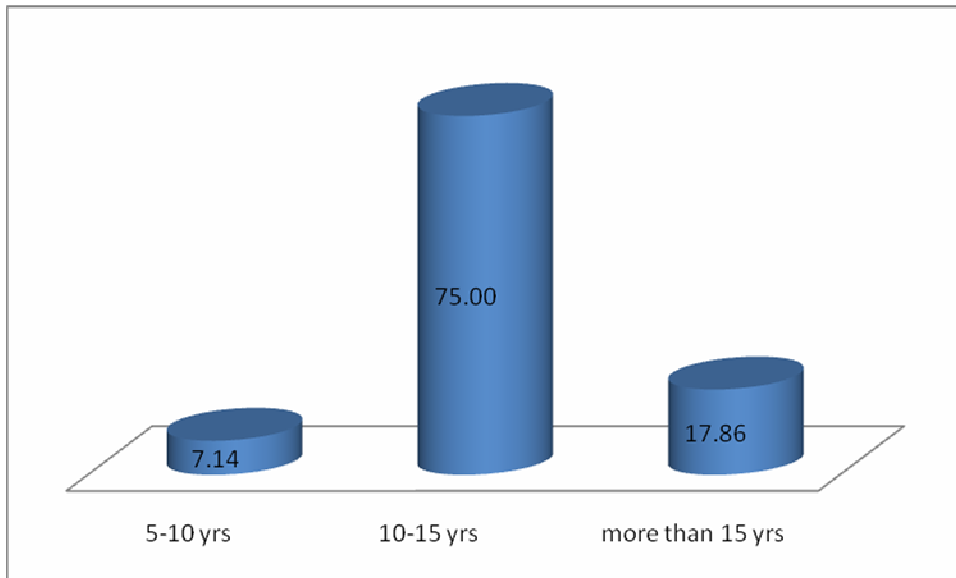
The objectives of the study were to establish the strategies adopted and to determine the management perception of the effectiveness of customer retention strategies adopted by commercial banks in Kenya to retain customers. The questionnaires were dropped and later picked at a later date to allow the respondents to feel the questionnaires at their own time. Once the respondents answered the questionnaire, data was then coded and analyzed using SPSS to get the means and standard deviation. Graphs, pie charts and tables were used to present the data.

4.2 Response Rate and the Rate of Return

The study targeted 44 respondents in collecting data with regard to strategies adopted by commercial banks in Kenya to retain customers. From the study, 28 respondents out of the 44 sample respondents filled-in and returned the questionnaires making a response rate of 63.64%. This reasonable response rate was achieved after the researcher made personal calls and physical visits to remind the respondent to fill-in and return the questionnaires.

4.3 Demographic Information

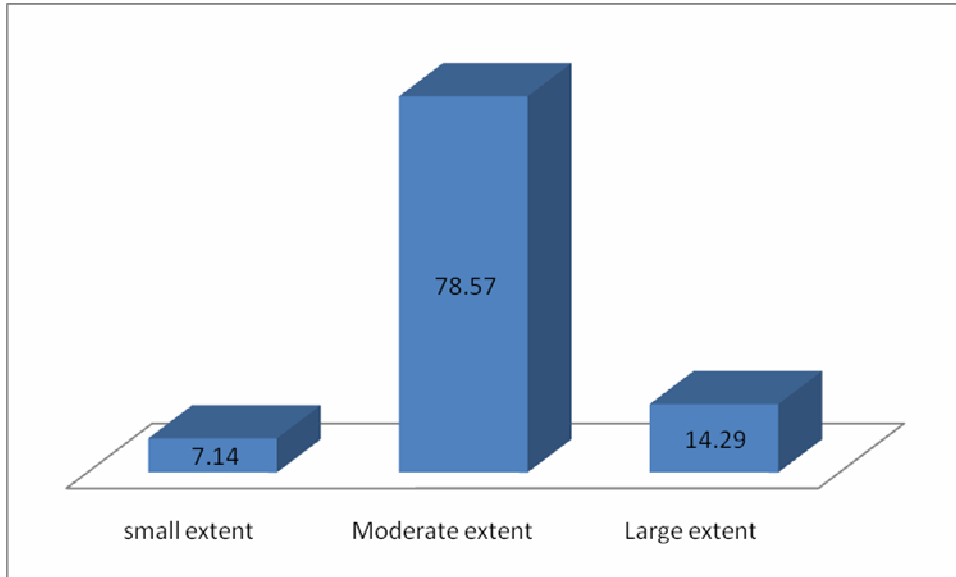
Figure 4. 1: Period of the bank existent



The study sought to find out how long the banks have been in existent. According to the findings, 75% of the banks were 10-15 years, 17.86% were more than 15 years and 7.14% were between 5-10 years in operation.

The study sought to know if the bank employed customer retention strategies. From the findings, all the respondents indicated that the bank employed customer retention strategies.

Figure 4. 2: Extent that customer retention strategies were effective



The study sought to find out the extent to which customer retention strategies were effective. According to the findings, 78.57% of the respondents indicated that customer retention strategies were effective to moderate extent, 14.29% indicated that customer retention strategies were effective to large extent and 7.14% indicated that customer retention strategies were effective to small extent.

Table 4.1: Period the respondents had been working with the bank

	Frequency	Percentage
1-2years	2	7.14
3-5years	18	64.29
Above 5years	8	28.57
Total	28	100.00

The study aimed at finding out the period the respondents had been working with the bank. Results revealed that 64.29% of the respondents had been working with the bank for 3-5years, 28.57% of the respondents had been working with the bank for above 5years and 7.14% of the respondents had been working with the bank for 1-2years.

4.4 Customer Retention Strategies

A strategy is a large scale, future-oriented plans for interacting with the competitive environment to optimize achievement of organizational objectives. Strategy is the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets and fulfill stakeholder expectations` (Johnson & Scholes, 2003).

As per the first research objective to establish the strategies adopted by commercial banks in Kenya to retain customers, the study sought to inquire the customer retention strategies applied by commercial banks. This section utilized a 5-point likert scale where 1-1.49 = no extent, 1.50-2.49 = low extent, 2.50-3.49 = moderate extent, 3.50-4.49 =great extent, 4.50-5.00 = very great extent. Commercial banks generally applied customer retention strategies to a moderate extent. This was illustrated by the grand mean which was 3.01.

Results presented in the table above showed that commercial banks applied product innovativeness to a very great extent as shown by a mean of 4.67. Today's customers do not just buy core quality products or services; they also buy a variety of added value or benefits. This forces the service providers such as banks to adopt a market orientation

approach that identifies consumer needs and designs new products and redesigns current ones (Ennew & Binks, 1996; Woodruff, 1997).

In addition, commercial banks applied long working hours, cross selling, employee training and customer relationship management to a great extent as shown by a mean of 4.45, 4.36, 4.01 and 3.91 respectively.

Moreover, commercial banks applied quality service, communication effectiveness and differentiated products to a great extent as shown by a mean of 3.79, 3.66 and 3.55 respectively. Unless a bank can extend its product quality beyond the core service with additional and potential service features and value, it is unlikely to gain a sustainable competitive advantage (Chang, Chan & Leck, 1997). The most likely way to both retain customers and improve profitability is by adding value via a strategy of differentiation while increasing margins through higher prices (Baker, 1993).

In addition, commercial banks applied loyalty programmes, customer involvement and customer satisfaction follow ups to a moderate extent as shown by a mean of 3.48, 3.29 and 2.86 respectively. Moreover, commercial banks applied switching barriers, rewarding loyal customers and lost customer analysis to little extent as shown by a mean of 2.43, 1.99 and 1.86 respectively. According to Miles & Snow (2005) the way to a successful organization is to align itself with the environment. To align organization and environment successfully, management has to solve three problems, and solve them continuously: the entrepreneurial, engineering, and administrative problems. The entrepreneurial problem is to choose a general market domain, or field of operation, in which the organization can be viable; to specify the precise target market; and to decide

on the right products or services for it. Besides, commercial banks did not at all apply discounts on loyalty and complicated products as shown by a mean of 1.46 and 1.45 respectively.

Table 4.2: Customer Retention Strategies applied by Commercial Banks

Strategies	Mean	Stdev
Loyalty programmes	3.48	0.81
Cross selling	4.36	0.63
Differentiated products	3.55	0.54
Product innovativeness	4.67	0.28
Quality service	3.79	0.49
Employee training	4.01	0.6
Switching barriers	2.43	0.71
Complicated products	1.45	0.62
Long Working hours	4.45	0.67
Discounts on loyalty	1.46	0.53
Customer satisfaction Follow ups	2.86	0.68
Customer Relationship Management	3.91	0.34
Customer Involvement	3.29	0.69
Communication effectiveness	3.66	0.52
Lost customer analysis	1.86	0.51
Rewarding loyal customers	1.99	0.37
Grand Mean	3.01	0.53

4.5 Perception of the Effectiveness of Customer Retention Strategies

Today's competitive environment maximizes customer retention probability so as to sustain the company's protection against inroads competition. Customer retention is a key factor in determining the success of businesses today. Fluss (2010) notes that competitors are always on the lookout to steal customers through better deals. Lombard (2009) noted

that today the pressure on companies to retain customers is fuelled by the market where customer acquisition is low.

As per the second research objective to determine the management perception of the effectiveness of customer retention strategies adopted by commercial banks in Kenya to retain customers, the respondents were requested to indicate their perception of the effectiveness of customer retention strategies. A 5-point likert scale was used where 1-1.49 = no extent, 1.50-2.49 = low extent, 2.50-3.49 = moderate extent, 3.50-4.49 = great extent, 4.50-5.00 = very great extent. Respondents perceived effectiveness of customer retention strategies as moderate extent effective as shown by a grand mean of 2.50.

Data revealed from the study showed that respondents perceived effectiveness of long working hours, employee training, and product innovativeness and cross selling to a great extent effective as shown by a mean of 4.40, 4.34, 4.04 and 3.57 respectively.

In addition, respondents' perceived effectiveness of loyalty programmes, quality service and customer relationship management to a moderate extent effective as shown by a mean of 3.45, 3.23 and 3.23 respectively. According to Payne & Frow (2005), Customer relationship management (CRM) is important to commercial banks to acquiring new customers, retain the existing ones and maximize the lifetime value. Customer relationship management enhances the value to the customer.

Moreover, respondents' perceived effectiveness of customer involvement, differentiated products and communication effectiveness to a moderate extent effective as shown by a mean of 2.74, 2.66 and 2.58 respectively. Neil (1998) noted that strong brands have the ability to attract and retain customers.

Also, respondents' perceived effectiveness of customer satisfaction follow ups and switching barriers to a little extent effective as shown by a mean of 1.86 and 1.62 respectively. Furthermore, respondents' perceived effectiveness of discounts on loyalty and rewarding loyal customers to a moderate extent effective as shown by a mean of 1.26 and 1.25 respectively. Reichheld (1996) advocates the pursuit of a three-pronged approach of keeping investors, employees and customers and the adjustment of the firm's mission, which should be about creating value for its three above mentioned constituencies. Besides, respondents' perceived effectiveness of lost customer analysis and complicated products to a not at all effective as shown by a mean of 1.15 and 1.14 respectively.

The study sought to find out the recommendation to the banking sector for effective strategies. According to the findings, the respondents recommended commercial banks to adopt customer retention strategies and ensure they are effective. This is because the costs of customer retention activities are less than the costs of acquiring new customers. Rust & Zahorik (1993) argue that the financial implications of attracting new customers may be five times as costly as keeping existing customers.

Table 4.3: Perception of the Effectiveness of Customer Retention Strategies

Strategies	Mean	Stdev
Loyalty programmes	3.45	0.35
Cross selling	3.57	0.7
Differentiated products	2.66	0.82
Product innovativeness	4.04	0.73
Quality service	3.23	0.53
Employee training	4.34	0.67
Switching barriers	1.62	0.42
Complicated products	1.14	0.31
Long Working hours	4.4	0.81
Discounts on loyalty	1.26	0.6
Customer satisfaction Follow ups	1.86	0.53
Customer Relationship Management	3.23	0.24
Customer Involvement	2.74	0.43
Communication effectiveness	2.58	0.71
Lost customer analysis	1.15	0.29
Rewarding loyal customers	1.25	0.17
Grand Mean	2.50	0.49

4.6 Discussion of the Findings

Commercial banks applied product innovativeness to a very great extent. Today's customers do not just buy core quality products or services; they also buy a variety of added value or benefits. This forces the service providers such as banks to adopt a market orientation approach that identifies consumer needs and designs new products and redesigns current ones (Ennew & Binks, 1996; Woodruff, 1997).

Commercial banks applied long working hours, cross selling, employee training and customer relationship management to a great extent. This in line with Mermann (2007) who indicates that when you differentiate your products you make your competitor irrelevant and in so doing you guarantee sales for your business that ensuring your survival. Services can be differentiated through speed, performance, quality, responsiveness and availability. They also applied quality service, communication effectiveness and differentiated products to a great extent. Moreover, they applied loyalty programmes, customer involvement and customer satisfaction follow ups to a moderate extent. This in line with Neil (1998) who notes that strong brands have the ability to attract and retain customers. Few commercial banks applied switching barriers, rewarding loyal customers and lost customer analysis.

Long working hours, employee training, product innovativeness and cross selling was perceived as more effective. Loyalty programmes, quality service and customer relationship management were perceived as effective. According to Payne & Frow (2005), Customer relationship management (CRM) is important to commercial banks to acquiring new customers, retain the existing ones and maximize the lifetime value. Customer relationship management enhances the value to the customer. Moreover, customer involvement, differentiated products and communication effectiveness were perceived as effective. According to Dortyol (2009) & Heiman (2005), a key principle of relationship marketing is the retention of customers through varying means and practices to ensure repeated transaction from the already existing customers.

The way to retain customers is to improve customer service quality and satisfaction. This is in line with DeSouza (1992) who advocates retention measurement and the

implementation of measures of preventing customers from defecting by learning from former customers, analyzing complaints and service data, and identifying and raising barriers to customers' switching.

Customers are retained effectively by keeping investors, employees and customers and the adjustment of the firm's mission to be about creating value. This is in line with Reichheld (1996) who advocates the pursuit of a three-pronged approach of keeping investors, employees and customers and the adjustment of the firm's mission, which should be about creating value for its three above mentioned constituencies

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECCOMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The objectives of this study were to establish the strategies adopted and to determine the management perception of the effectiveness of customer retention strategies adopted by commercial banks in Kenya to retain customers.

5.2 Summary of the findings

The study found that commercial banks applied product innovativeness to a very great extent. In addition, commercial banks applied long working hours, cross selling, employee training and customer relationship management to a great extent. They also applied quality service, communication effectiveness and differentiated products to a great extent. Moreover, they applied loyalty programmes, customer involvement and customer satisfaction follow ups to a moderate extent. Few commercial banks applied switching barriers, rewarding loyal customers and lost customer analysis.

The study established that long working hours, employee training, product innovativeness and cross selling was perceived as more effective. Loyalty programmes, quality service and customer relationship management were perceived as effective. Moreover, customer involvement, differentiated products and communication effectiveness were perceived as effective.

5.3 Conclusion of the study

Based on the findings of the study as summarized above, it can be concluded that commercial banks in Kenya have various retention strategies. Success in retaining customers was attributed to a combination of strategies being pursued. Innovativeness is the strategy mostly used by banks to retain customers. Customers do not just buy core quality products or services; they also buy a variety of added value or benefits. Banks are forced to adopt a market orientation approach that identifies consumer requirements and designs new products and redesigns up to date ones. Unless a bank can extend its product quality beyond the core service with additional and potential service features and value, it is unlikely to gain a sustainable competitive advantage. The most likely way to both retain customers and improve profitability is by adding value using a strategy of differentiation while increasing margins through higher prices. Differentiation of products makes competitors irrelevant and in so doing guarantees sales for the business.

The study concludes that long working hours, employee training, product innovativeness and cross selling were strategies perceived as effective in retaining customers. Strong brands have the ability to attract and retain customers. Customer relationship management (CRM) is important to commercial banks to acquiring new customers, retain the existing ones and maximize the lifetime value. Customer relationship management enhances the value to the customer. A key principle of relationship marketing is the retention of customers through varying means and practices to ensure repeated transaction from the already existing customers. Relationship marketing involves

understanding the needs, goals and desires of the key stakeholders that include the customers, employees and marketing partners and all these have a direct impact on the success of the firm.

5.4 Recommendations of the study

For Commercial banks to adopt customer retention strategies and ensure they are effective. This is because the costs of customer retention activities are less than the costs of acquiring new customers. Financial implications of attracting new customers may be five times as costly as keeping existing customers.

The researcher further recommends that firms need to analyze their customers before coming up with strategies of retaining them. Banks need to come up with ways of rewarding the sales force for retaining customers. Commercial banks need to put up a good and quality customer care unit. This will help them deal with customers complains promptly. This need to be advance in that customers are able to contact customer care online or by calling.

Employees should be encouraged to have a good and quality relationship with customers. Customers should be made to feel that bank employees understand them and their needs. Relationships with customers should be caring and ongoing. This ensures that touch and personal relationship are established when the first contact with the customer will be sustained.

Banks need to differentiate their products. This would make competitors irrelevant and in so doing guarantee sales for their business thus ensuring survival. Strong brands should be developed. Organizations should endeavor to create value for their customers. In doing this they will be making the customer feel appreciated and that they are understood and their need will be met.

5.5 Limitations of the study

The researcher encountered various limitations that hindered access to information that the study seek. The main limitation of study was its inability to include more bank organizations. This was a case focusing on the selected institution. The study could cover more institutions across all sectors so as to provide a more broad based analysis. However time and resource placed this limitation.

The researcher also encountered other challenges or limitations such as none-cooperation by commercial bank employees since it was not easy to convince some employees to fill questionnaires hence not reaching the target sample size. However , the researcher assured the respondents of proprietary measures that the findings would be accorded and used only for academic purpose

5.6 Suggestions for Further Research

The following are some of the areas which need an imperative and comprehensive exploitation;

A detailed study on effects of strategies adopted by commercial banks in Kenya to retain customers; need to be done to shade more light on the best strategies that can be applied to enhance the operation of the commercial banks in Kenya

A comprehensive study on extent of strategies adopted by private firms in Kenya to retain customers in the commercial banks should be done on all the commercial banks to ascertain effective customer participation in the operations of the commercial banks, with regard to the projected customer participation that can boost the performance of these firms.

An analysis of strategies adopted to retain customers in the public sector. An in depth analysis of customer adoption which could be effective on customer retention, leading to improved performance of such public corporations should be done.

This study involves the assessment into strategies adopted by commercial banks in Kenya to retain customers. It would therefore be desirable if a similar study is carried out in insurance sector.

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APPENDIX ONE: QUESTIONNAIRE

Hallo!

I am EMMAH MECHA a student at the University of Nairobi pursuing masters in strategic management. I'm conducting a research for partial fulfillment of the requirement for the award of the aforementioned masters degree.

The research seeks to investigate the effectiveness of retention strategies adopted by commercial banks in Kenya. Participation in the research study is absolutely voluntary. Any information you forward will be treated with utmost confidentiality and will not be used for any purpose other than study objectives.

Signature of the interviewer.....

Date.....

Respondent agreement to participate in the research

☐ Yes

☐ No

Please tick where appropriate

Section one; demographic information (Please tick where appropriate)

1) Name of the bank

..... (Optional)

2) Number of branches

- a) Less than 1 yr b) 1-5 yrs c) 5-10 yrs d) 10-15 yrs e) more than 15 years

3) How old is your bank

- a) Less than 1 yr b) 1-5 yrs c) 5-10 yrs d) 10-15 yrs e) more than 15 yrs

4) Does your bank employ customer retention strategies?

- a) Yes b) No

If yes in Question 5 above, to what extent are they effective?

- a) Not at all b)small extent c)Moderate extent d)Large extent
e)Very large extent

5) How long have you been working with the bank?

- a) Less than 1 year [] b) 1-2years [] c)3-5years [] d)Above 5years []

5) Section two; the following are customer retention strategies applied by Commercial Banks. Please indicate the extent to which your bank has implemented these strategies effectively.

On a scale of 1-5 where 5=Very great extent, 4=Great extent, 3=Moderate extent, 2=little extent, 1=No at all

	Strategies	Not at all	Little extent	Moderate extent	Large extent	Very large extent
A	Loyalty					

	programmes					
B	Cross selling					
C	Differentiated products					
D	Product innovativeness					
E	Quality service					
F	Employee training					
G	Switching barriers					
H	Complicated products					
I	Long Working hours					
J	Discounts on loyalty					
K	Customer satisfaction Follow ups					
L	Customer Relationship Management					
M	Customer Involvement					
N	Communication effectiveness					
O	Lost customer analysis					
P	Rewarding loyal customers					

6) List any other strategy (ies) you use and rate in on the scale

1.....2.....
3.....

7) Section three; please indicate your perception of the effectiveness of each of the following customer retention strategies.

On a scale of 1-5 where 5=Very great extent, 4=Great extent, 3=Moderate extent, 2=Little extent, 1=No at all

	Strategies	Not at all	Little extent	Moderate extent	Large extent	Very large extent
A	Loyalty programmes					
B	Cross selling					
C	Differentiated products					
D	Product innovativeness					
E	Quality service					
F	Employee training					
G	Switching barriers					
H	Complicated products					
I	Long Working hours					
J	Discounts on loyalty					

8) With you	K	Customer satisfaction Follow ups					
	L	Customer Relationship Management					
	M	Customer Involvement					
	N	Communication effectiveness					
	O	Lost customer analysis					
	P	Rewarding loyal customers					

r experience in strategy implementation, what would you recommend to the banking sector for effective strategies?

APPENDIX TWO

The 44 Commercial Banks in Kenya

1. <u>African Banking Corporation</u> Bank	14. <u>Dubai Bank Kenya Ltd</u>
2.Barclays Bank of Kenya Ltd	15. <u>Dyer & Blair Investment Bank</u>
3. <u>Bank Of Africa</u> Kenya Ltd	16. <u>Equatorial Commercial Bank</u> <u>Limited</u>
4. <u>Bank Of Baroda (Kenya) Ltd.</u>	17. <u>Equity Bank</u>
5.Credit Bank Ltd	18.Family Bank
6. <u>City Bank Finance Ltd</u>	19. <u>First American Bank</u>
7. <u>Chase Bank</u>	20. <u>Fidelity Commercial Bank</u>
8. <u>Citibank N A</u> Ltd	21. <u>Fina Bank</u>
9. <u>Co-operative Bank</u>	24. <u>Giro Commercial Bank Ltd</u>
10. <u>Commercial Bank of Africa</u> Ltd	25. <u>Guardian Bank</u>
11. <u>Consolidated Bank</u> of Kenya Ltd	26.Gulf Development Bank
12. <u>Development Bank Of Kenya</u> <u>Ltd</u>	27.Habib Bank Ltd
13.Diamond Trust Bank(K)Ltd	28.Habib Bank AG Zurich
	29. <u>Housing Finance</u>
	30. <u>Imperial Bank Limited</u>

31. <u>Investments & Mortgages Bank Limited – I&M Bank</u>
32. <u>K-Rep Bank</u>
33. <u>Kenya Commercial Bank</u>
34. <u>Kenya Post Office Savings Bank</u>
35. <u>National Bank of Kenya Ltd</u>
36. <u>National Industrial Credit Bank Ltd</u>
37. <u>Oriental Commercial Bank Ltd.</u>
38. <u>Paramount Universal Bank</u>

39. <u>Prime Bank Ltd</u>
40. <u>Prime Bank Capital &Credit Ltd</u>
41. <u>Standard Chartered Bank Ltd</u>
42. <u>Stanbic Bank Kenya Ltd</u>
22. <u>Southern Credit Banking Corporation</u>
23.. <u>Suntra Investment Bank Ltd</u>
43. <u>Trans-national Bank (K) Ltd</u>
44. <u>Victoria Commercial Bank</u>