

**EFFECT OF SOCIAL MEDIA INTERACTIONS ON FINANCIAL PERFORMANCE  
OF COMMERCIAL BANKS IN KENYA**

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**DECLARATION**

This research project is my original work and has not been submitted for any award in any other university.

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## **DEDICATION**

I dedicate this study to my husband Mr. Robert Wachira, my daughter Leah-Marie Muthoni and our unborn child for their selfless sacrifice of their precious family time throughout my study period.

## **ACKNOWLEDGEMENT**

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## **LIST OF ABBREVIATIONS**

<b>CBK</b>	Central Bank of Kenya
<b>CRM</b>	Customer Relationship Management
<b>GoK</b>	Government of Kenya
<b>ICT</b>	Information Communication Technology
<b>IT</b>	Information Technology
<b>KBA</b>	Kenya Bankers Association
<b>ROI</b>	Return on Interest
<b>SCRM</b>	Social Customer Relationship Management
<b>SPSS</b>	Statistical Package for Social Sciences
<b>SSA</b>	Sub-Saharan Africa
<b>STI</b>	Science and Technology and Innovation

## ABSTRACT

The study sought to establish the effect of social media interactions on financial performance of commercial banks in Kenya. This study used a descriptive research design and all the commercial banks in Kenya as the study population. The study used both primary collected using semi-structured questionnaires through the drop and pick method and secondary data from the banks' financial reports. Multiple linear regression models was used to assess whether financial performance is a function of the variables indicated on the specific objectives. The study found that commercial banks have embraced social media interaction and Facebook is the dominant platform with the highest number of users and the most commonly used for interaction between firms and customers. Social media interaction offers a platform for marketing and sales of products, development of new product brands, access to real-time customer feedback to enhance banks' understanding of the needs of their customers. Average number of customers acquired through social media interactions was found to increase gradually over the last three years ranging from 1,740 in 2011 to 5,000 in 2003, this has lead to an increase in the average loan portfolio among commercial banks in Kenya ranging from 53 billion in 2011 to 62 billion in 2013, this has increased their revenue from the uptake of loans. Customer acquisition cost was found to decrease through usage of social media to a great extent. Most commercial banks were found to review their social media policies yearly while others reviewed them as and when need arises. Commercial banks were found to experienced risk management issues concerns associated with adoption of social media interaction, most of these risk were; operation, reputational and data and regulatory risks, sales volume, customer acquisition cost and risk management and mitigation were found to predict financial performance by a factor of 0.253, 0.209 and 0.105 respectively. The statistical significance for the three variables were 0.05(sales volume), 0.07(customer acquisition cost) and 0.39(risk management and mitigation).

The study recommends that for commercial banks to have a wide social network, they should place some measures to encourage wide participation of the customers in social media interaction within their sites which eventually increases their customer base. Additionally, the study recommends that management should embrace social network as a way of interacting with customers who may not be reached in other means.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the Study

Social media utilization has led to massive change in communication and the dynamics of human relationships take on a new perspective. Social media have provided consumers with platforms to form a sort of tribal community around a product or brand. However, businesses that adopt social media as a strategy must accept that they are losing an element of control to the consumer. For many businesses today social media is their largest web presence, overtaking their company websites and email programmes (Mangold and Faulds, 2009). Thus social media has mutated how businesses interact and communicate with their customers as well as how they establish and implement their customer relationship management (CRM) policies (Sinclair and Vogus, 2011).

According to Tirunillai and Tellis (2012), marketers and financial analysts consider social media to be the most effective channels where online users review and blog provide product and brand specific information compared with other popular forms of marketing. Different from conventional online consumer behavior metrics, social media metrics are featured by their ability to generate, share, and spread information virally, which creates a social contagious effect largely driving the unprecedented speed of information diffusion through the Internet (Aral and Walker, 2011).

This study seeks to examine whether social media has a significant predictive relationship with firm financial performance in Kenyan commercial banks. In an increasingly competitive market, technology can enable banks to act more efficiently, respond more effectively to market trends

and create a competitive advantage (Barber and Odean, 2008). The primary function of the financial systems is to facilitate the allocation and deployment of economic resources both spatially and across time, in an uncertain environment. This function encompasses a payment system with a medium of exchange; transfer of resources, the gathering of savings for the purposes of pure time transformation and reduction of risks through insurance and diversification. The possibility of new financial products and services/ instruments that can better satisfy financial system participants' demands is always present.

In Kenya, businesses that deal with communicating with the consumers has social media as an integral part be it marketing, branding, customer service and other functions that requires one to reach out (Ngugi et al., 2010). About 90% of marketers use social media to market their businesses out of which 50% use social media for more than 6 hours per week. Companies that have just started using social media spend little time compared to ones who have been on it for a while (Nyambu, 2013). As outlined in the development blue print of the Vision 2030, Kenya has been advancing in ICT through strategic reforms in key industries that form the foundation of society for socio-political and economic growth such as infrastructure, science and technology and innovation (STI) (GoK, 2007). Social media and social networking are still gaining popularity and their understanding as marketing tools is still not fully embraced in Kenya. However, the traditional marketing practices and interactions are undergoing a transformation owing to the Internet. Consumers no longer look up products and services in the Yellow pages of the postal directory but instead they search for them on the Internet (Kiveu, 2008).

### **1.1.1 Social Media Interaction**

Chi (2011) defines social media interaction as a connection between brands and consumers, that offers a personal channel and currency for user centered networking. The tools and approaches for communicating with customers have changed greatly with the emergence of social media; therefore, and businesses are learning how to use social media in a way that is consistent with their business plan (Mangold and Faulds 2009). This is especially true for organizations striving to gain a competitive advantage. Kaplan and Haenlein (2010) defines social media as a group of Internet based applications that build on the ideological and technological foundations of Web 2.0, and allow the creation and exchange of user generated content.

Sinclair and Vogus (2011) view social media as a broad term that describes software tools that create user generated content that can be shared. Still, a number of basic features are necessary for a website to meet the requirements as a social network website: the site must contain user profiles, content, methods that permit users to connect with each other and post comments on each other's pages and join virtual groups based on common interests such as fashion or politics (Cox, 2010). While the phrase social networking sites' is often used interchangeably with social media, Kaplan and Haenlein (2010) argue that social media is different because it allows participants to unite by generating personal information profiles and inviting friends and colleagues to have access to those profiles. Thus, social media is the environment in which social networking takes place and has altered the way in which consumers gather information and make buying decisions.

Social media facilitates customer service functions like answering questions, checking account records tracking orders as well as handling customer complaints (Kotler and Armstrong, 2012). It allows companies to relate with customers in a deeper and more meaningful ways. Rather than relying on one-way, mass media messages only, social media allows for more interactive approaches that build targeted two way customer relationships. The new communication approaches makes companies create deeper customer involvement and a sense of community surrounding a brand- to make the brand a meaningful part of consumers conversations and lives.

In terms of the benefits most businesses cite brand awareness and publicity as the highest return followed by an increase in foot traffic which was followed by finding new business partners, rise in search engine rankings and generating leads (Kotler and Armstrong, 2012). Social media technology, such as Facebook, and Twitter, has enabled customers to express their feelings regarding a product or service they have purchased. With this feedback, businesses can improve decisions on how to serve clients and create more informed solutions, thus increasing customer loyalty. Locally, Kenyan companies already have a strong presence and existence in the Social Media sphere. These companies include but are not limited to Safaricom @Safaricom\_care, Kenya Power and Lighting company@KenyaPower, The Central Bank of Kenya @CbKKenya, The University of Nairobi, @UniOfNbi and Kenya Commercial Bank, @KCBGroup.

Customer service through social media offers an array of benefits for financial institutions, ranging from reduced customer support costs to improved customer satisfaction and retention as well as revenue growth (Stutzman, 2006). Offering innovative, personalized customer services can also assist banks to attract and retain customers. Effective customer services such as online banking offers financial institutions the opportunity to target and acquire new customer segments

that value mobility and real-time control of their finances, leading to increased customer growth and revenue (Chen et al., 2012). Regular introduction of highly-usable, compelling mobile services not only strengthens a bank's brand as innovative and future-oriented, it also offers numerous opportunities for tailored marketing and promotional campaigns to drive customer service effectively (Da et al., 2011).

The more the bank interacts with customers, the more information about customers' lives and habits that can be collected to refine communities/profiles (Luo, 2009). This process can be further extended by introducing real co-creation processes to develop new products or services and that can be subsequently offered to different profiles. Either way, customers are led to feel that they are part of the bank, which helps to foster greater loyalty to the institution and makes them less likely to shop around for a different provider (Das and Chen, 2007).

### **1.1.2 Financial Performance**

The financial performance of firms in this study will be described by the revenue growth. Financial performance analysis of commercial banks has been of great interest to academic research since the Great Depression Intern the 1940's. In the recent past, studies have shown that commercial banks in Sub-Saharan Africa (SSA) are more profitable than the rest of the world (Flamini et al., 2009). One of the possible reasons for the high profitability in commercial banking business in SSA is the existence of huge gap between the demand for bank service and the supply thereof. Thus, in SSA the number of banks are few compared to the demand for the services; as a result there is less competition and banks charge high interest rates.

This is especially true in East Africa where the few government owned banks take the lion's share of the market. The performance of commercial banks can be affected by internal and external factors (Al-Tamimi and Hassan, 2010; Aburime, 2005). These factors can be classified into bank specific (internal) and macroeconomic variables. The internal factors are individual bank characteristics which affect the bank's performance. These factors are basically influenced by the internal decisions of management and board. The external factors are sector wide or country wide factors which are beyond the control of the company and affect the profitability of banks. The overall financial performance of banks in Kenya in the last two decade has been improving. However, this doesn't mean that all banks are profitable, there are banks declaring losses (Oloo, 2010). Studies have shown that bank specific and macroeconomic factors affect the performance of commercial banks (Flamini et al. 2009).

### **1.1.3 Social Media Interaction and Financial Performance**

Social making interactions are used by firms as formidable strategic variables to outstrip the competition and have become an essential means for the firms to improve their performance and to maintain its effectiveness on the market (Batiz-Lazo and Woldesenbet, 2006). This stimulates the interest in studying the relationship between social media interaction firm performance. In a highly turbulent environment, any successful innovations in social media interaction creates a unique competitive position that give firms a competitive advantage and may lead to a superior financial performance (Roberts and Amit, 2003).

However, despite the undeniable importance of social media in firms' financial performance, the effect of social media interaction financial performance is still misunderstood for two main reasons. It seems that there is a lack of understanding about the drivers of social media



interaction and its impact on financial performance of firms. In fact, most of the existing studies adopt a simplistic approach to the social media interaction and performance relationship which does not take into account the antecedents to social media use inside and outside the firm, all of which could influence this relationship (Roberts and Amit, 2003).

In addition, some of the recently undertaken studies have neglected the possibility of reverse causality between innovation and financial performance. However, De Young et al.'s study (2007) is an exception as it took into account the endogeneity of social media interaction and use as a financial performance explaining variable. Furthermore, in spite of an extensive descriptive literature on financial performance, there is a paucity of empirical studies on the effect of social media interaction on financial performance. Most of the existing empirical works have focused on other determinants of financial performance (Frame and White, 2004).

Generally, the fast-changing competitive environment, globalization, dynamic consumer buying behaviour, economic changes, regulation and privatization demand that firms are run efficiently and effectively by continuously engaging in customer interactions through all fronts including social media. In Kenya emergence of new technologies, products, processes, markets and competitors places demand on any organization to apply any skills necessary to remain competitive and achieve competitive advantage. The banking industry for example has already been depicted as exhibiting little market orientation and fulfilling services with little regard to customer needs as well as including branches dissimilar in efficiency which have contributed to low financial performance (Parasuman et al., 2001).

In Kenya, long lines, transaction errors, queuing, insecurity and network failures have been said to be the most frequent factors discouraging customers from maximum utilization of the banking services (Smith, 1999). This highly lower customer's perception on the quality of service offered and hence reduces the bank's credibility hence profitability (Joseph et al., 2003). Still, the perception could be changed with frequent and prompt interaction with the customers on the social platforms.

#### **1.1.4 Commercial Banks in Kenya**

The banking industry in Kenya is dominated by commercial banks, profit making financial institutions, which play an important role in the provision of a wide range of corporate financial services including deposit, loan and trading facilities (Magutu et al., 2009). The industry is governed by the Companies Act, the Banking Act, the Central Bank of Kenya (CBK) Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK), governs the Banking industry in Kenya. CBK is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

As at quarter ended June 30, 2014, the sector comprised 44 commercial banks, 1 mortgage finance company, 8 deposit taking microfinance institutions, 7 representative offices of foreign banks, 108 foreign exchange bureaus and 2 credit reference bureaus (CBK, 2014). Out of the 44 banking institutions, 31 locally owned banks comprise 3 with public shareholding and 28 privately owned while 13 are foreign owned.

Currently, the commercial banks in Kenya have taken cue from other parts of the world and established social media platforms to interact with customers and potential customers (). Up to

90% of bank customers prefer their banks to communicate with them via social media and this had compelled banks like Kenya Commercial Bank, Barclays Bank of Kenya, National Bank, Equity and numerous others have Facebook and Twitter platforms to propagate information on their products and services and offer after sales services (Maina, 2007). The traditional marketing model dwelt on the interaction between the producer and the customer and how the relationship between the two would be maximized. However, the interaction has with time been encountered with various challenges, mostly logical in nature.

Kimani (2012) asserts that for the banks that are currently utilizing web platforms, customers are able to quickly raise their issues and such interactions build relationships. He recommends that the banking industry should leverage these platforms as an effective way to connect with their customers and to build brands. The advent of social media networking platforms has availed commercial firms with an avenue, of employing the least cost, to propagate information about their products and services. This mode of marketing takes advantage of the power of interaction and social influences between people to maximize on transmission of information about their offerings.

## **1.2 Research Problem**

Different business industries including the banking industry have been compelled to think about new ways of communicating with their customers especially with the rise and wide spread of Internet and the fast growing consumers' digital media (Cheong and Morrison, 2008). One of the fastest growing ways for reaching the consumers is social media (Trusov et al., 2009). It has

become an important part in peoples' lives and represents the online content publicly created and available to end the users; a tool used to spread information among customers.

The social media has transformed the way the public and brands interact (Njuguna (2012). Kiveu and Ofafa (2013) argue that customer interaction mechanisms and strategies that once included careful message development broadcast to mass audiences, are now giving way to the idea that the public is a co-creator of brand messages and a trustworthy promotion channel. Instead, two-way interpersonal communication is re-emerging as a necessary strategy for engaging a public growing increasingly skeptical of traditional marketing tactics (Stutzman, 2006).

Despite its emerging popularity, many brands are wary to invest the time to participate in social media because it remains unproven if social media engagement translates into increased sales. This research intends to find out the relationship between social media interaction and customer satisfaction in commercial banks in Kenya. Previous related studies have not focused on social media interaction and financial performance in commercial banks in Kenya.

Onyancha (2013), for instance, did a study on social media relationship and customer service in Kenya commercial bank. Nyambu (2012) did a survey of influence of social media marketing on performance of telecommunication firms in Kenya with focus to Safaricom and found that social media improves the performance of the organization as it offers a platform for marketing at a cheaper cost compared to other forms of marketing available. The study also established that promotional campaign boosted performance of telecommunication firms in Kenya as it increased sales and revenue beyond the promotion period. Njuguna (2012) did a survey on the effects of social media on performance of Kenya Power and Lighting Company. He found that increased

customer base, ROI and improved customer service are significant effect social media toward investing on social media.

This study was motivated by this knowledge gap and sought to establish the impact of social media interactions on financial performance among commercial banks in Kenya. This research attempted to answer the following: what is the effect of sales volume, customer acquisition costs and risk management and mitigation on the financial performance of commercial banks in Kenya?

### **1.3 Objective of the Study**

The main objective of this study was to establish the effect of social media interactions on financial performance of commercial banks in Kenya.

The study will be guided by the following specific objectives; to establish the impact of sales volume through social media interaction, customer acquisition cost and risk management and mitigation on financial performance of commercial banks in Kenya.

### **1.4 Value of the Study**

First, the study would be helpful to the management of commercial banks. The study would provide the necessary knowledge and better understanding of the role of social media interactions on financial performance among commercial banks in Kenya. The findings may help commercial banks managers to identify the functions, touch points, and goals of social-media activities, as well as craft approaches to measure their impact and manage their risks. The time is ripe for executive-suite discussions on how to lead and to learn from people within the company, marketers outside it, and, most of all, the customers.

Secondly, the study would benefit strategic partners and regulatory bodies like the Kenya Bankers Association (KBA) and the Central Bank of Kenya (CBK) by forming a basis for the formulation of appropriate regulations and policies pertaining to the social media in the banking industry.

Researchers who would wish to undertake further studies in this area will find the research more useful by gaining valuable background on social media interactions and financial performance in the banking sector as other industries. The study will also help researchers and academicians to expand their research into the industry in Kenya as literature review and contribute to the existing knowledge, address and provide the background information to research organizations, individual researchers and scholars who will want to carry out further research in this area.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents a broader context of the study subject in terms of past scholarly works and what other author have written about social media, social media interaction and firms financial performance. It examined an increasing body of knowledge pertaining to theories related to social media interaction and review of empirical studies related to social media interactions.

#### **2.2 Theoretical Framework for Social Media Interaction**

Numerous theories have been proposed in describing the concept of social media and its application in businesses. This study was constructed around three notions of social media in relation to customer interaction; the marketing theory, the social network theory and the implicit person theory.

##### **2.2.1 Marketing Theory**

The relationship between social marketing theory and profitability of business has been within for a long time now. As the name implies, is grounded in commercial marketing theory and practice. However, given that the application of social marketing is predominantly in non-commercial sectors, social marketing practice draws on a range of related disciplines including sociology, psychology and other social welfare related activities (Hunt, 1991). As it grows in acceptance, social marketing has continued to evolve.

Social media marketing is a highly dynamic field with new emphases and perspectives emerging, particularly in relation to the role that social marketers can play in contributing to structural

change (Fox and Kotler, 2000). Objectives for behavioral cessation campaigns need to be carefully framed. Success, in these campaigns, needs to be the full cessation of the target behaviour by an individual adopter, rather than the complete cessation of the behaviour throughout society. Many campaigns of this style believe that one person behaving in a manner contrary to the campaign means that the campaign, and social marketing, has failed.

Social marketing theory is a large and sometimes complex branch of business strategy, due in part to the recent emergence of social marketing compared to other marketing endeavors. Social marketing was only seen as a viable strategy in the 1980s and 1990s, and was only developed in the 2000s (Bloom, 1981). It has several key characteristics that can set it apart from traditional business marketing, but is inherently flexible. Depending on the company, there may not be large differences at all. Social marketing is marketing through causes and social issues and is a key part of social enterprise. The goal of social marketing is not necessarily to raise sales figures. It is often to promote a specific cause in the community and better society in some way by raising awareness of a problem and offering solutions to that problem, usually at the same time. Social marketing is often based on a partnership between a business and a nonprofit or government agency.

Many kinds of social marketing theories exist, making it difficult to describe precisely what theory is the primary one. Some theories of social marketing are based on the exchange principal, maintaining that the company exchanges value between its partners and consumers and benefits from social marketing in equal amounts (Fine, 1981). Other theories approach social marketing as a philanthropic endeavor where benefits may not be seen and will not be direct



benefits even if they do manifest. Theories also vary on if social marketing should be local or widespread, what standards should apply and how such projects should be funded.

Because social marketing theory is more like a "set of principles" rather than a formal theory, there are few campaigns that include all social marketing constructs simultaneously (Kaplan and Haenlein, 2010). According to Sinclair and Vogus (2011), most interventions are "loosely" based on social marketing principles, most often including only one or two aspects of this comprehensive theoretical and technical framework, most notably audience analysis (most often through focus group or survey research), audience segmentation and involvement of community agencies. In general the empirical evidence seems to support the importance of thorough audience analysis and involvement of community agencies for successful design and implementation of health behavior campaigns.

This suggests that knowledge of the audience's beliefs, attitudes and behaviors is critical in the design of an effective intervention. Indeed, one of the criticisms of Social Marketing has been that the main emphasis is on the individual rather than the individuals' larger environment. It appears that the endorsement, support and resources of individuals' social and physical environment facilitates or hampers campaign activities. It is not clear how the individuals' beliefs/attitudes/behaviors is affected directly by the person's environment.

### **2.2.2 Social Network Theory**

Social network theory views social relationships in terms of nodes and ties (Shafie et al., 2011). Nodes are the individual actors within the networks, and ties are the relationships between the actors. There can be many kinds of ties between the nodes. In its most simple form, a social

network is a map of all of the relevant ties between the nodes being studied. The network can also be used to determine the social capital of individual actors. These concepts are often displayed in a social network diagram, where nodes are the points and ties are the lines.

The social network approach has its origin embedded in the mathematical graph theory and has a long and distinguished history in the social sciences and psychology where it has been used to investigate human social organization (Scott, 2000). The main strengths of the approach are the potential to address population-level or cross-population-level problems by building up complex social structures from individual level interactions. SNT studies individual users and the relationship between these users (Shafie et al., 2011). In the theory, weak ties refer to casual relationships whereas strong ties refer to close relationships. The relationships between the nodes in social network sites enable one to understand individuals' choices in their relationships with others. In online social network, there are vaster weaker ties among the nodes.

Stutzman (2006) asserts that the power of social network theory stems from its difference from traditional sociological studies, which assume that it is the attributes of individual actors that matter. Social network theory produces an alternate view, where the attributes of individuals are less important than their relationships and ties with other actors within the network. According to Krause et al. (2007), this approach has turned out to be useful for explaining many real-world phenomena, but leaves less room for individual agency, the ability for individuals to influence their success; so much of it rests within the structure of their network.

### **2.2.3 Implicit Person Theory**

The implicit person theory revolves around personality traits; whether they are deemed to be fixed or malleable; how they affect consumer inferences about the malleability of a brand's personality traits and its ability to extend into new categories. According to Yorkston et al. (2010), consumers who believe that traits are malleable (incremental theorists) are more accepting of brand extensions than consumers who believe that traits are fixed (entity theorists). Implicit theorists believe that consumers' perceptions regarding the flexibility of a brand's personality traits demonstrates that consumers primed with different implicit theory orientations respond differently to varying degrees of change within a single trait.

A prototypical entity implicit theory considers that attributes of individuals are generally a fixed entity, but an incremental implicit theory considers the attributes of individuals to be generally malleable (Park and Roedder, 2014). Research carried out on Implicit person theory by social psychologists together with academicians conducted on students and kids focused mainly on implications that motivated holding incremental implicit theory or a primary entity (Henderson and Neeraj, 2010). Looking from an organizational perspective, research carried out to establish the influence of implicit theory on self-regulation as well as goals set, self-efficacy levels including their resilience after failures and how tasks are performed after making decisions that are complex. However, managers' implicit theories have not been examined to establish the effects of how they judge others. Implicit theories may focus on specific areas like personality, their morality and ability.

## **2.3 Determinants of Financial Performance of Commercial Banks**

### **2.3.1 Sales Volume**

Social media allows firms' sales persons to see what prospect customers are saying about their brand and competitors (Kotler and Armstrong, 2011). One gets to know their customers' needs through social listening as social media provides a platform to research a market and initiate conversation leading to big sales; the core interest of every organization that is based on sales and profit (Nobilis, 2010). Sales do not go up or down just like that, the company manages and directs its sales volume through the portfolio and channels (Beamish and Ashford, 2006). Evans and McKee (2010) argue that social media promises significant benefits for sales organizations by providing them with new ways to find, connect with, and understand their customers.

Fournier and Avery (2011) found that in sales, the hunt is always on for the next deal, and social networks provide a rich prospecting resource. This has given Social media an ability to boost brand awareness; encourage people to try products/services which might eventually lead to more sales returns especially when the campaign happens to go viral (Barwise and Meehan, 2010). Typically a good brand is not about being chosen over a competitor in the market segment, but rather, it should offer a solution to the prospects problem.

### **3.3.2 Customer Acquisition Cost (CAC)**

Customer acquisition cost refers to the cost associated in convincing a customer to buy a product/service and is incurred by the organization to convince a potential customer (). This cost is inclusive of the product cost as well as the cost involved in research, marketing, and accessibility costs and is a very important business metric. CAC plays a major role in calculating

the value of the customer to the company and the resulting return on investment (ROI) of acquisition. The calculation of customer valuation helps a company decide how much of its resources can be profitably spent on a particular customer. In general terms, it helps to decide the worth of the customer to the company.

According to Levitt (2006), customers are assets that need to be acquired before they can be managed for profit. Customer acquisition is hugely important to companies in many contexts: for new business start-ups, when entering new geographic or customer market segments, when launching a new product, when exploiting new applications for an existing product or service, when marketing low involvement products and services, when repeat purchases are infrequent, and when switching costs are low. When social media markets show growth potential, it is strategically important for all players to grow the aggregate market size rather than protect their own customer base, through customer retention efforts. Customer acquisition is critical to any for-profit business and the efficiency or cost of acquisition is a key success metric, so it requires social media marketers to understand what these costs are, how they are measured, and where they stack up against competitors in their industry.

### **2.3.3 Risk Mitigation and Management**

Risk management and mitigation encompasses the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the impact of an eventualities (2009). In social media interaction, risks can be managed and mitigated risk efficiently by applying predictive analytics to social data can help

banks identify potential defaulters and identify market trends (McKinnon, 2002). Banks therefore can take adequate measures to shield itself from risk and business cycle volatility.

Solis and Li (2013) advise that when done correctly, social media listening can provide early risk indicators and mitigate the impact of crises when they do occur. Socially connected consumers can also avail community intelligence to identify and deal with fraud and phishing attacks. Increased efficiency in risk management can be realized using social interactions if banks centralize teams and give customers a unified, one brand experience across all channels. Financial institutions can also reduce operational costs by using social networks as an effective way to crowd source solutions and deal with issues that don't involve PII (personally identifiable information).

#### **2.4 Review of Empirical Studies**

Studies and industry reports have examined the tactical role of particular marketing mix elements that contribute to customer acquisition costs including introductory offers, competitions, word-of-mouth, viral marketing, out-bound solicitation by call-center, staff affiliate marketing or partnership programs, service guarantees and the world-wide web (Stokes & Lomax 2002; Daniel & Wilson 2002). Given this body of research and the general consensus concerning planning in modernist social media interaction, banks are expected to excel at customer acquisition with minimum expenses.

Odhiambo (2012) explored whether social media is more effective than the traditional media on a brand management perspective. The study established that even though social media is more effective than some of the traditional advertising channels, it cannot be implemented in isolation

without augmenting it with other forms of traditional advertising channels. The implications are that social media alone cannot single handedly create brand awareness or even develop business.

Social media interaction is one of the most important steps in the customer relationship management (CRM) process because it enhances customer retention. Woodcock et al., (2011) found that through the use of social customer relationship management (SCRM), a company can get to know their high value customers, and then proceed to market accordingly to those customers. This way, firms create the feeling for the customer of being in a one-on-one relationship with the company or brand. This is one of the major pluses of using social media in CRM, as it has the ability to create a sense of trust between the marketer and the consumer, and it can also lead to better customer service.

Johansson (2010) found that through social media, a corporate message spreads from user to user and presumably resonates because it appears to come from a trusted, third-party source, as opposed to the brand or company itself. This is because social media has become a platform that is easily accessible to anyone with internet access. Increased communication for organizations fosters brand awareness and often, improved customer service. Additionally, social media serves as a relatively inexpensive platform for organizations to implement marketing campaigns and nowadays the barrier to entry in social media is greatly reduced.

Keller (2009) suggests that, the concepts of brand awareness, word of mouth referral, purchase intention and satisfaction with social media tools are all worthy indicators and building blocks towards consumer-based brand equity and increases sales volume. Brand awareness is the foundational building block of consumer-based brand equity. In addition, Mangold and Faulds

(2009) indicates that, social media having dramatic influences on every stage of the consumer decision-making process including information acquisition, brand awareness, purchase behaviour, and post-purchase communication and evaluation, as well as influencing general opinions and attitude formation.

Arockiaraj and Baranidharan (2014) found that social media networking is a genuine cultural phenomenon and has become the most popular online sector in less than ten years in India. They established that marketers of brands can best use social media to engage with their core customers. The social media creates brand awareness; a constant need for learning and developing new knowledge as well as for measuring and following up. Regarding the different degrees of brand awareness, there exists a clear strategy for how to reach the different stages of brand awareness, from the weakest to the strongest (word-of-mouth).

Schivinski and Dabrowski (2013) investigated consumers' perception of brands as a result of social media communication using 504 Facebook users. The results of their empirical studies showed that user-generated social media communication had a positive influence on brand equity and brand attitude. In addition, the analysis indicated that firm-created social media communication affected only brand attitude. Both brand equity and brand attitude showed a positive influence on purchase intention. Moreover, measurement invariance was assessed using a multi-group structural modelling equation.

## **2.5 Summary of the Literature Review**

The literature has highlighted studies most of which do not explicitly address the impact of social media interaction on financial performance in Kenyan commercial banks. The literature shows



that marketing approach has changed from persuading consumers to buy products by bombarding them with numerous advertisements to building relationships and trust through effective two-way communications and creating products that will help to solve customers' problems. However, some of today's social media marketing campaigns are still driven by the old-fashioned marketing and focus on short-term effect (sales), which is also known as incentive-induced behavior.

The theories indicate that trust and genuine buyer/seller relationships achieved through consistent and engaging conversation increases the level of influence of social media interaction. Influence isn't about popularity or even reach but rather, about the trust, authority, and presence to drive relevant actions within the business environment that create something of substance. Most importantly, trust is the key factor to get masses of followers to change in buying decisions and influence their peers which in turn increases business revenues. In order to keep the campaign relevant to customers it is crucial to build a strong relationship with customers and enhance brand loyalty.

The literature also indicates that bank-customer interactions occur on a daily basis through social media; an indication that customers are turning into social media for service access and inquiries. Social media is now a tool of interaction and service provision as found by Zeithmal and Bitner (2003) literature that customer service is the service provided in support of a company's core product. In conclusion social has changed the way people across the globe communicate with one another. However, it is worth noting that social networking has been there right from the beginning of humanity. Commercial banks have embraced social media since the inception of

their contact centres and this may move the banks from one level to another in financial performance.

The emerging marketing techniques using social media have enabled both customers and banks to be more effective and productive in receiving and providing service. Through self-service technologies, customers can now serve themselves more effectively reducing banks' operational costs that otherwise eat into their revenue. Social media has resulted in the potential for reaching out to customers around the globe in ways not possible when, in the not-so-distant past, services were limited to local provision. The Internet itself knows no boundaries, and therefore information, customer service and transactions can move across countries and across continents, reaching any customer who has access to the Web. Social Media also allows employees of commercial banks to stay in touch easily to share information and serve on virtual work teams together, thus allowing employees to work remotely and services to be provided by global workers.

Still, a scarcity of literature in the area of study exists, particularly in the developing states like Kenya. The few that have been conducted in the third world nations have eluded criticism in the criteria, title, scope; methodology used hence the research gaps in terms of literature. The literature review highlights a number of theories in relation to the variables (independent and dependent) and the conceptual framework of the variables by analyzing the relationships between them.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the research methodology of the study. It describes the procedural plan that will be used by the researcher to validly, objectively, economically and accurately answer the research questions. This section of the study therefore describes the research design, target population, data collection instruments, procedures and data analysis.

#### **3.2 Research Design**

Research design refers to the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in the procedure (Babbie, 2002). This study used a descriptive research design that involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data (Babbie, 2002). The research design is ideal for this study because it portrayed the variables by answering who, what and how questions. According to Cooper and Schindler (2004) descriptive statistics discover and measure cause and effect relationships among variables.

#### **3.3 Study Population**

A study population encompasses the entire groups of individuals, objects, items, cases, articles, or things with common characteristics existing in space at a particular point of time (Baker, 1999). The study used all the 44 commercial banks that are currently operating in Kenya as the target population (Appendix III).

### **3.4 Data Collection**

The study used both primary and secondary data. Primary data will be collected using semi-structured questionnaires through the drop and pick method in an effort to conserve time and money as well as to facilitate in easier analysis as they are in immediate usable form. The semi-structured questionnaires consisted of open and closed ended questions. The pre-requisite to the questionnaire design was the definition of the problem and the specific study objectives (Mugenda and Mugenda, 2003). This method was deemed appropriate because questionnaires the respondents were reached easily and were willing to co-operate and able read and write independently (Creswell, 2009). Secondary data was garnered using audited financial reports of the commercial banks.

### **3.5 Data Analysis**

The data collected was both quantitative and qualitative data. Quantitative data was analyzed using Statistical software (SPSS, V.21) and the output were presented using descriptive statistics namely: mean, standard deviation, percentages proportions and five-point Likert scale. Qualitative data was transcribed and analyzed using content analysis method where responses will be organized based on themes and trends established. The findings were summarized to back up quantitative data. Multiple linear regression models was used to assess whether financial performance is a function of the variables indicated on the specific objectives. It provided information on impact of an independent variable while simultaneously controlling the effects of other independent variables.

The study used the following model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where;

Y = Financial Performance which is measured by the annual revenue growth of commercial banks.

$\beta_0$  = Constant (Y-Intercept-The predicted value of Y when all the X values equal 0)

$\beta_1 - \beta_4$  = Intercept of Independent Variables.

X = Social Media interaction which will be measured using three data points namely; X1, X2 and X3

X<sub>1</sub> = Sales volume; the quantity of products or/and services sold over a specific time period. This is measured by the number of new accounts opened using social media interaction and the growth in loan portfolio since the adoption of social media interaction strategy.

X<sub>2</sub> = CAC; refers to the resources that a business need to allocate financially in order to acquire an additional customer. It is expressed by dividing the sum total of CAC by the number of additional customer acquired by the business as a result of the social media customer acquisition strategy.

X<sub>3</sub> = Risk Mitigation and Management and is measured by the number of risks that the bank is exposed to through usage of social media interaction.

$\varepsilon$  = Error term.

The model was informed by the need to find out the correlation between the social media interaction and the financial performance of commercial banks.

## CHAPTER FOUR

### DATA ANALYSIS AND PRESENTATION OF FINDINGS

#### 4.1 Introduction

This chapter covers the data analysis, results and discussion of the study findings. The presentation of the data analysis, results and discussion was based on the sequence of questions in the questionnaire used to collect data. Out of the 44 questionnaires administered by the researcher, 29 filled questionnaires were collected translating to a 66% response rate. According to Babbie (2002), any response of 50% and above is adequate for analysis and therefore, the response rate of 66% is satisfactory.

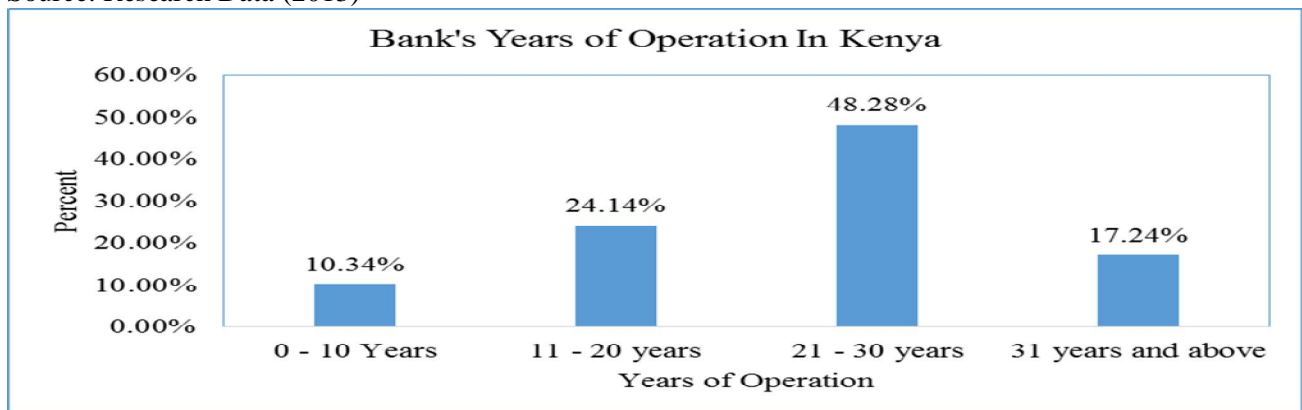
#### 4.2 Bank's Years of Operation

Table 4.1 and Figure 4.1 show a summary of the research findings on the number of years the commercial banks under the study have been operating in Kenya.

*Table 4.1: Commercial Banks' Years of Operation*

<b>Years of Operations</b>	<b>Frequency</b>	<b>Percent</b>
0 - 10 Years	3	10.34%
11 - 20 years	7	24.14%
21 - 30 years	14	48.28%
31 years and above	5	17.24%
<b>Total</b>	<b>29</b>	<b>100.00%</b>

Source: Research Data (2013)



*Figure 4.1: Commercial Banks' Years of Operation*

Most (48.28%) have operated in Kenya for 21 – 30 years followed by 24.14% that have been in business for 11 – 20 years. Only 10.34% of the banks have operated for 10 or less years in Kenya. These findings show that most of the commercial banks in Kenya have been in operation longer than social media has been in Kenya. They are therefore expected to have embraced social media in their operations.

### 4.3 Commercial Banks Ownership

A summary of the findings on the ownership of the commercial banks in Kenya is as shown in Table 4.2 and Figure 4.2. Over 80% of the banks are predominantly local (at least 50%) while the rest are either predominantly foreign (13.79%) or balanced between foreign and local (3.45%).

Table 4.2: Commercial Banks Ownership

Ownership	Frequency	Percent
Predominantly local (51% or more)	24	82.76%
Predominantly foreign (51% or more)	4	13.79%
Balanced between foreign and local (50/50)	1	3.45%
<b>Total</b>	<b>29</b>	<b>100.00%</b>

Author: Research Data (2013)

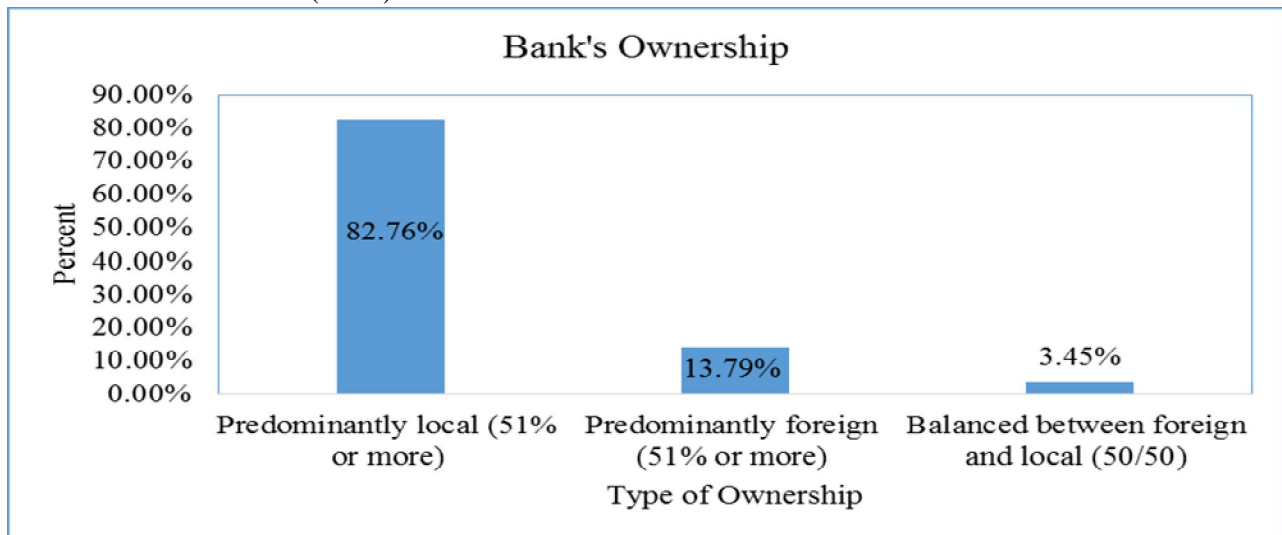


Figure 4.2: Commercial Banks Ownership

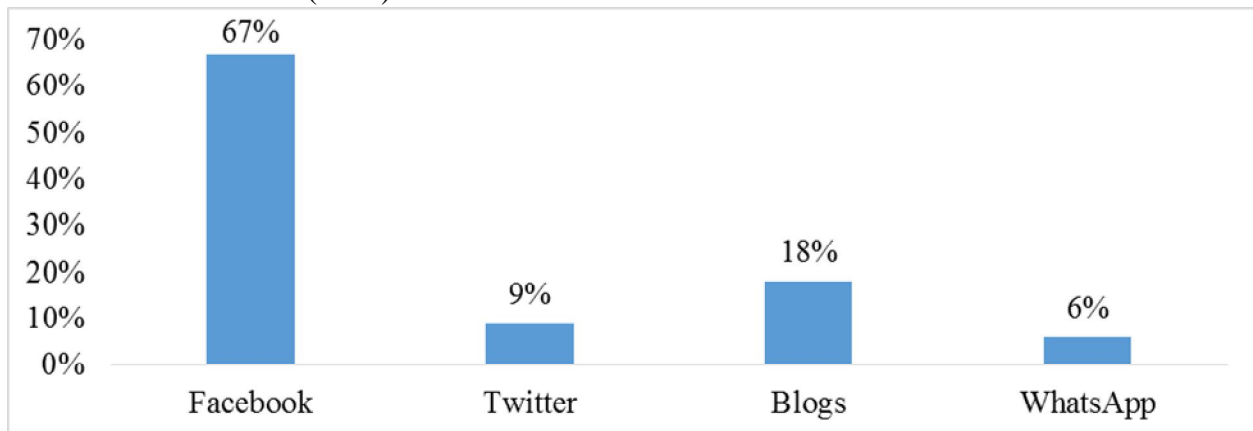
#### 4.4 Use of Social Media in Commercial Banks

All the commercial banks were found to have a social media site. Table 4.3 and Figure 4.3 show a summary of the findings on the commonly tools of social media that commercial banks in Kenya. Facebook (67%) and blogs (18%) are the commonly used platforms. A few banks use Twitter (9%) and LinkedIn (6%). Facebook is the dominant social networking platform in the number of users and therefore the most commonly used for marketing and interaction between firms and customers (Maeve and Smith, 2013) although a striking number of users are now diversifying onto other platforms like the blogs and Twitter.

*Table 4.3: Most Common Social Media Tools Used*

<b>Most Common Social Media Tools Used</b>	<b>Frequency</b>	<b>Percent</b>
Facebook	19	67%
Twitter	3	9%
Blogs	5	18%
LinkedIn	2	6%
Total	29	100%

Source: Research Data (2014)



*Figure 4.3: Most Common Social Media Tools Used*

In addition most (70%) of the banks indicated to have a social media department that is housed within their marketing department. The department is attended to by the staff within the marketing department. Thus most of the banks are already fully embracing the best of what

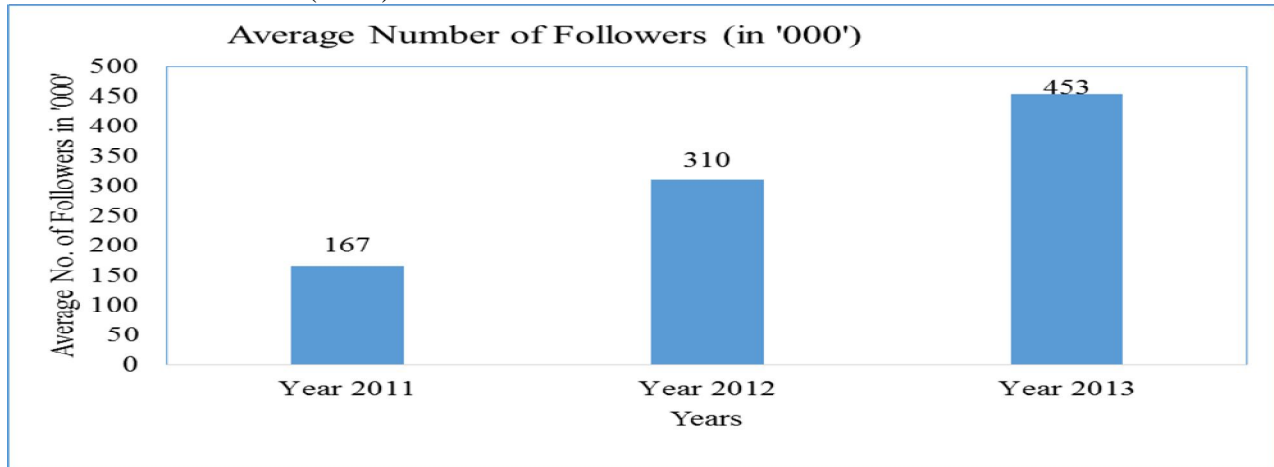


social media culture has to offer and this is evinced by the increasing number of followers that commercial banks have recorded between 2011 and 2013 (Table 4.4 and Figure 4.4).

*Table 4.4: Average Number of Followers ('000)*

<b>Year</b>	<b>Average No. of Followers</b>
Year – 2011	167
Year – 2012	310
Year – 2013	453

Source: Research Data (2014)



*Figure 4.4: Average Number of Followers*

The study also sought to establish the reasons for commercial banks' utilization of social media.

Table 4.5 shows a summary of the results.

*Table 4.5: Reason for Social Media Use*

<b>Reason for Social Media Use</b>	<b>N</b>	<b>Min.</b>	<b>Max.</b>	<b><math>\mu</math></b>	<b>SD</b>
Market Research	34	1	5	3.88	0.781
Access new markets	34	1	5	3.58	1.014
Develop new product brands	34	1	5	3.84	1.068
Selling of products	34	1	5	3.92	0.997
Collect data on customers	34	1	5	3.89	1.013
Customer relationship management	34	1	5	3.92	0.997

Source: Research Data (2014)

The findings show that commercial banks use social media interaction mainly for customers relationship management ( $\mu = 3.92$ ,  $SD = 0.997$ ); selling of products ( $\mu = 3.92$ ,  $SD = 0.997$ ); collecting data on customers ( $\mu = 3.89$ ,  $SD = 1.013$ ); market research ( $\mu = 3.88$ ,  $SD = 0.781$ ) and

developing new product brands ( $\mu = 3.84$ ,  $SD = 1.068$ ). These findings are consistent with those of Nyambu (2013) and Kiveu and Ofafa (2013) that social media offers a platform for marketing, promotional campaign, access to real-time customer feedback which enhances firms' understanding of the needs of customers hence meet them.

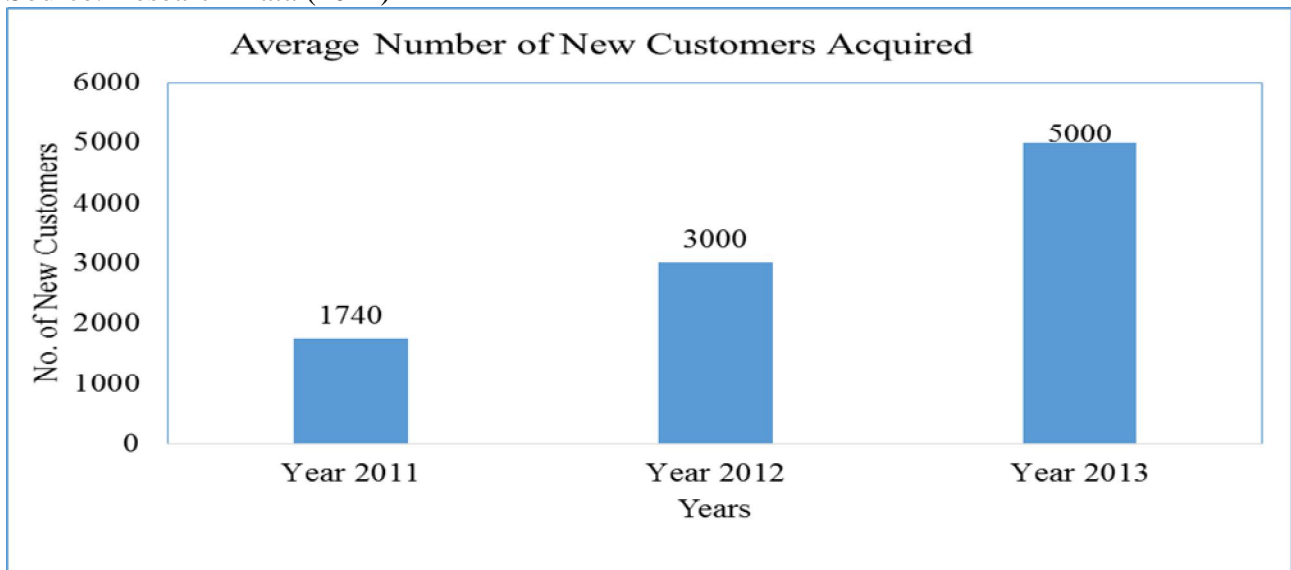
#### 4.5 Social Media and Volume Sales

Table 4.6 and Figure 4.5 show a summary of the findings on the average number of new customers acquired by the commercial banks over the last three years. The findings show that the number has been increased from 1,740 in 2011 to 5,000 in 2013.

*Table 4.6: New Customers Acquired through Social Media*

<b>Year</b>	<b>Average No. Customers acquired through social media</b>
Year 2011	1,740
Year 2012	3,000
Year 2013	5,000

Source: Research Data (2014)



*Figure 4.5: New Customers Acquired through Social Media*

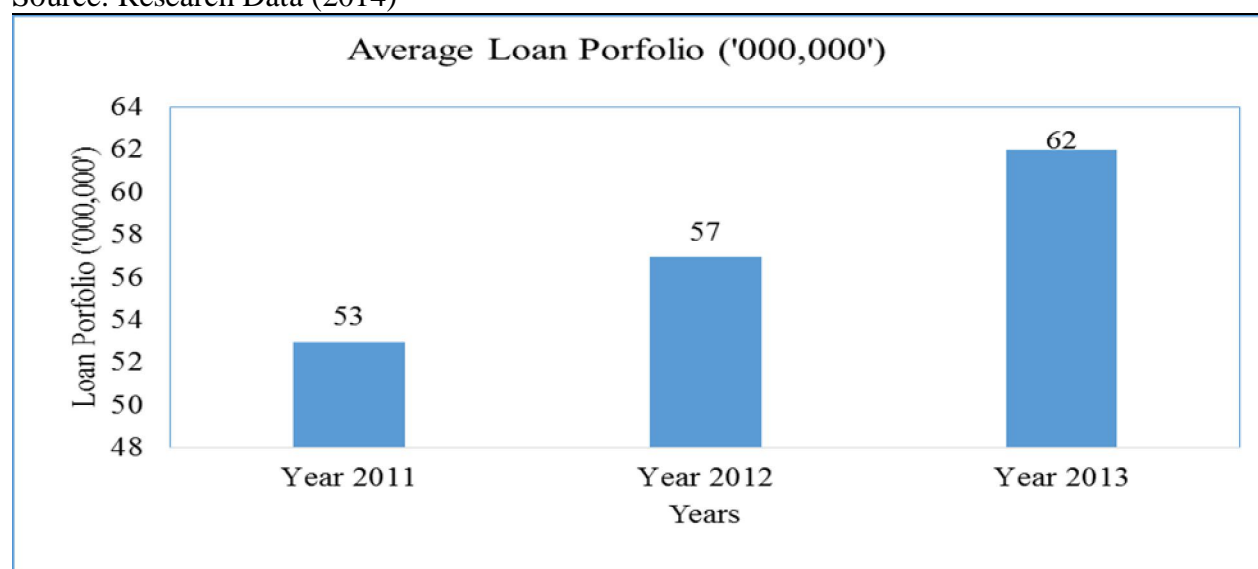
Commercial banks are therefore attracting new customers through social media interaction in addition to the traditional ways of marketing and interaction with its customers. The effect of

increasing number of new customers acquired has been an increase in the average loan portfolio among commercial banks as show in Table 4.7 and Figure 4.6. According to Nakayiza (2013), the interest earned on increased loan portfolio performance contributes largely to the performance of commercial banks as long as the loan portfolio is been maintained within acceptable limits and regulatory requirements are adhered to.

*Table 4.7: Average Loan Portfolio*

<b>Year</b>	<b>Average Loan Portfolio (in '000,000,000)</b>
Year 2011	53
Year 2012	57
Year 2013	62

Source: Research Data (2014)



*Figure 4.6: Average Loan Portfolio*

Table 4.8 and Figure 4.7 show the findings on the level of respondents' (dis)agreement that new customers acquired contribute to revenue growth through increased volume sales. Most (44.83%) agree to some extent while 24.14% strongly agree. Only 13.89% disagree. This implies that, in general, acquisition of new customers increases revenue growth among commercial banks in Kenya.

Table 4.8: News Customers and Revenue Growth

Extent	Frequency	Percent
Strongly disagree	1	3.45%
Disagree to some extent	3	10.34%
Neither agree nor disagree	5	17.24%
Agree to some extent	13	44.83%
Strongly Agree	7	24.14%
<b>Total</b>	<b>29</b>	<b>100.00%</b>

Source: Research Data (2014)

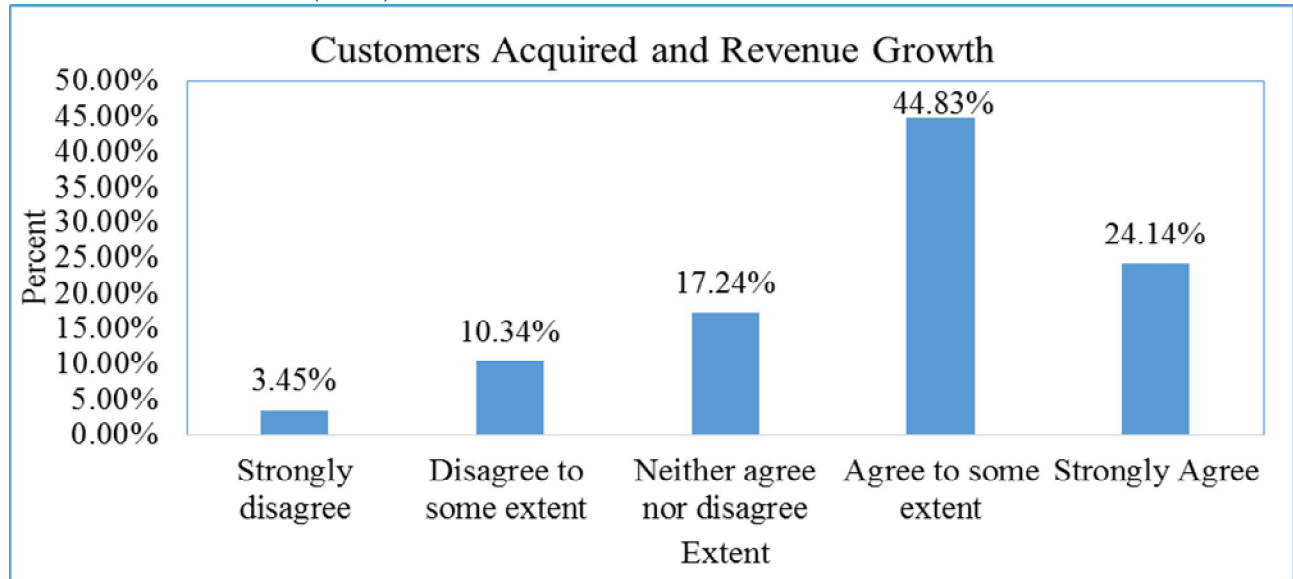


Figure 4.7: News Customers and Revenue Growth

#### 4.6. Social Media and Customer Acquisition Cost

All the respondents noted that following the adoption of adoption of social media interaction, their commercial banks have experienced a decrease in the cost of customer acquisition. Table 4.9 and Figure 4.8 show a summary of the findings where social media interaction has reduced CAC to either a great extent (41.38%) or very great extent (34.48%). The average cost of acquiring a new customer ranges between Kshs. 100 and Kshs. 300 among the commercial banks. Further, the respondents indicated that the cost of running a social media site in ranges from Kshs. 50,000 to Kshs. 1,000,000 per year. This could be attributed to the fact that most of the banks have departments running their social media sites. Table Nyambu (2013) established

that social media interaction is much cheaper compared to other forms of marketing available especially with the improvement in technology in the banking industry.

Table 4.9: Social Media Interaction Reduced Customer Acquisition

Extent	Frequency	Percent
Little extent	2	6.90%
Moderate extent	5	17.24%
Great extent	12	41.38%
Very great extent	10	34.48%
<b>Total</b>	<b>29</b>	<b>100.00%</b>

Source: Research Data (2014)

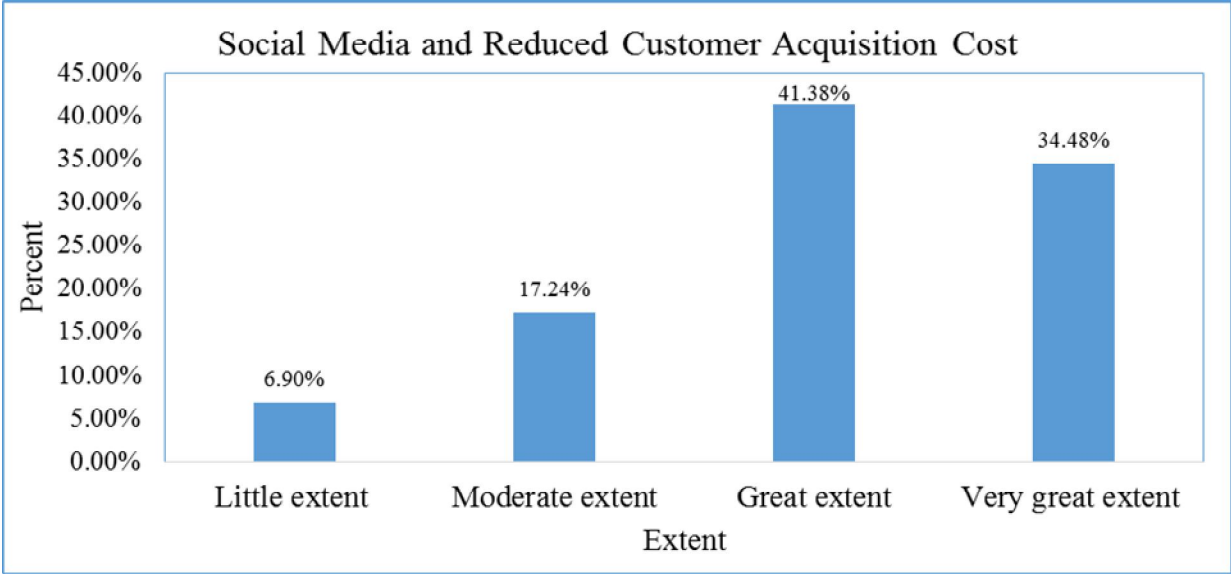


Figure 4.8: Social Media Interaction Reduced Customer Acquisition

#### 4.7 Social Media and Risk Management and Mitigation

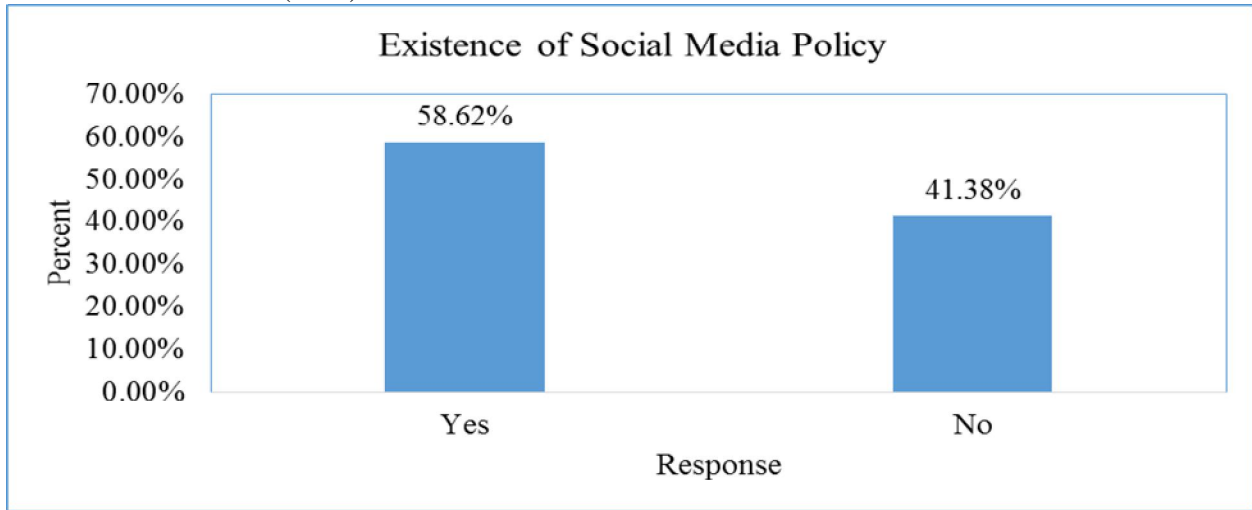
As shown the research findings summary in Table 4.10 and Figure 4.9, most (58.62%) of the commercial banks have social media policy while a significant number, 41.38% have none. Thus, in their social media interactions and related operations, most of the commercial exercise discretion when collecting, processing and sharing customer information and consider privacy issues. The rest of the banks that have no social media policies need to draft and adopt one to

ensure that they are transparent and aligned with ethical business behavior in social media interactions.

*Table 4.10: Social Media Policy*

<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Yes	17	58.62%
No	12	41.38%
<b>Total</b>	<b>29</b>	<b>100.00%</b>

Source: Research Data (2014)



*Figure 4.9: Social Media Policy*

The commercial banks that have the social media policies review them from time to time; 52.94% yearly, 29.41% when need arises, 11.76% semi-annually and 5.88% quarterly. Table 4.11 and Figure 4.10 show a summary of the findings.

*Table 4.11: Social Media Policy Review*

<b>Frequency of Review</b>	<b>Frequency</b>	<b>Percent</b>
Quarterly	1	5.88%
Half yearly	2	11.76%
Yearly	9	52.94%
Others	5	29.41%
<b>Total</b>	<b>17</b>	<b>100.00%</b>

Source: Research Data (2014)

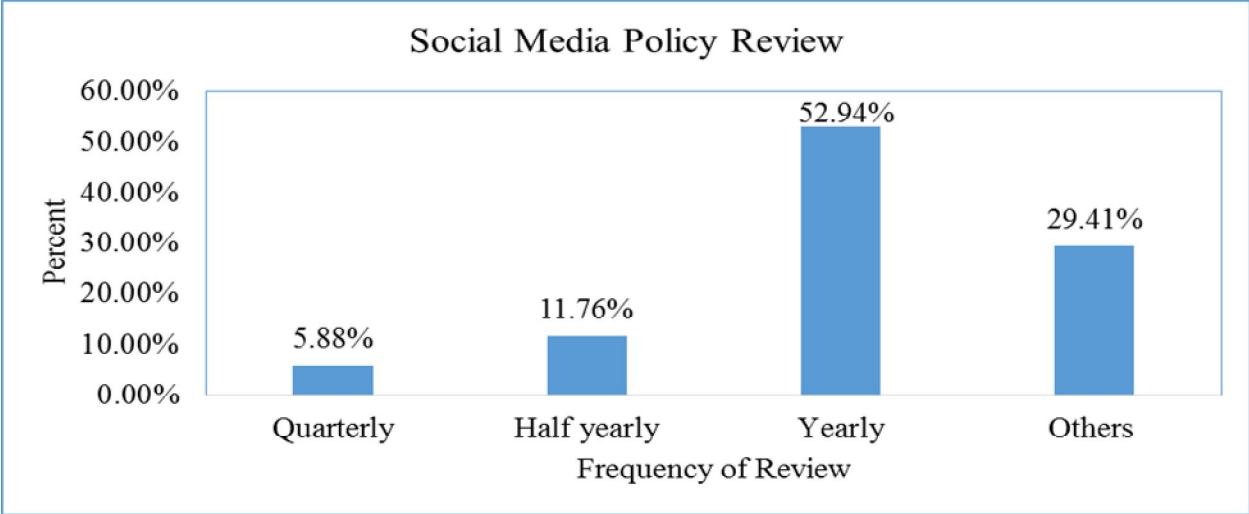


Figure 4.10: Social Media Policy Review

These findings show that commercial banks are aware that social media is dynamic and changes from time to time hence the need to review their related policies periodically or when need arises.

Further, all the respondents indicated commercial banks have had experience risk management concerns associated with the adoption of social media interaction. Table 4.12 and Figure 4.11 show a summary of the research findings on the major risks brought about by social media usage.

Table 4.12: Social Media and Major Risks

Response	Reputational risk		Operational risk		Data and information regulatory risk	
	Frequency	%	Frequency	%	Frequency	%
Yes	21	72.41%	19	65.52%	17	58.62%
No	8	27.59%	10	34.48%	12	41.38%
<b>Total</b>	<b>29</b>	<b>100.00%</b>	<b>29</b>	<b>100.00%</b>	<b>29</b>	<b>100.00%</b>

Source: Research Data (2014)

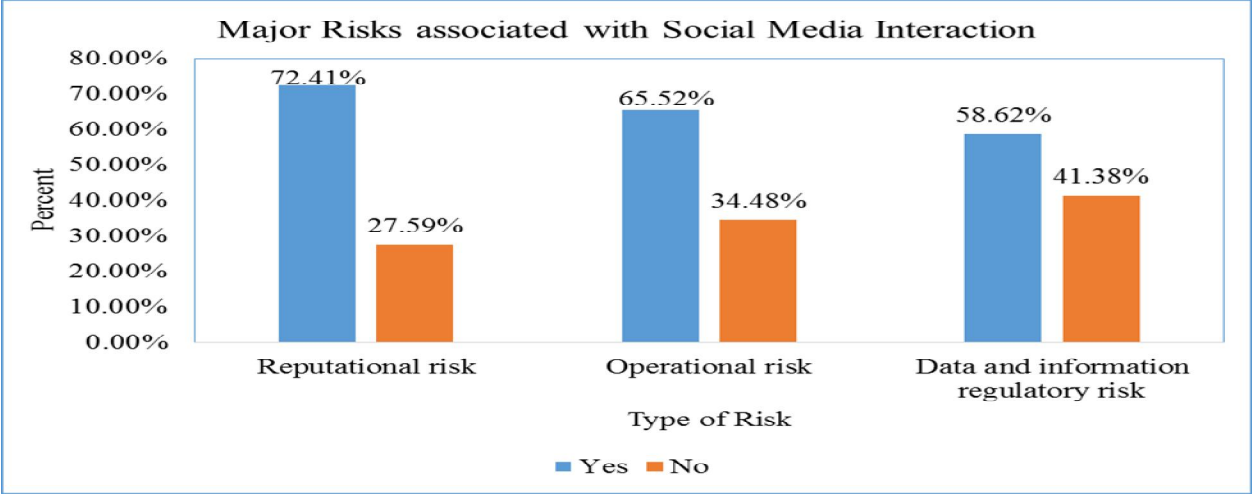


Figure 4.11: Social Media and Major Risks

The strong concerns on reputation risk could be associated to the fact that the performance of commercial banks is affected by its reputation. A bad reputation on social media could lead to adversely effects especially if the customers’ loyalty is hindered. Consequently, the banks have adopted various strategies to mitigate the various risks including: prompt response to posts on social media; setting up social media risk management department and full time monitoring and quick response to queries raised on social media. Table 4.13 and Figure 4.12 show a summary of the findings on how frequent commercial banks monitor their social media sites to detect and avert any related risks. Most of the commercial banks monitor and update their social media sites 24/7 because the customers are constantly checking and commenting on their current status.

Table 4.13: Monitoring and Updating of Social Media Sites

Frequency of Monitoring and Updating of Social Media Sites	Frequency	Percent
Hourly	3	10.34%
Daily	2	6.90%
Weekly	4	13.79%
Monthly	5	17.24%
Others (24/7)	15	51.72%
<b>Total</b>	<b>29</b>	<b>100.00%</b>

Source: Research Data (2014)



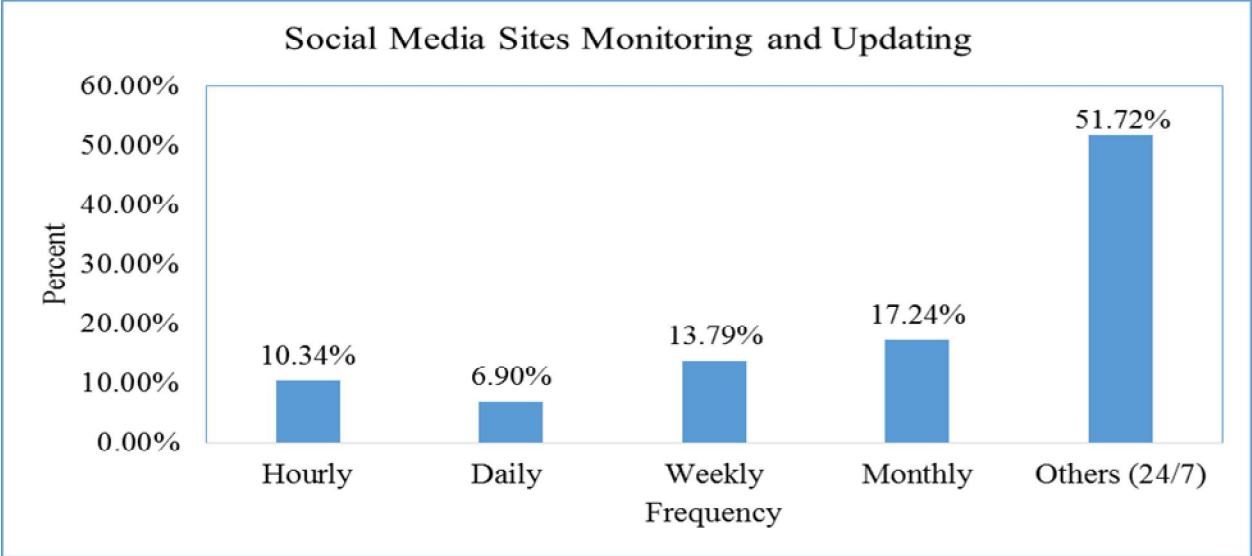


Figure 4.12: Monitoring and Updating of Social Media Sites

**4.8 Regression Analysis**

As shown in Table 4.11, the three independent variables that were studied explain 88.3% of the revenue generation as represented by the  $R^2$ . This therefore means that other factors not studied in this research contribute 11.7% of the performance among commercial banks in Kenya. Therefore, further research should be conducted to investigate the other social media interaction related factors (11.7%) that affect commercial banks’ performance (Table 4.14).

Table 4.14: ANOVA

Model	R	$R^2$	Adjusted $R^2$	Std. Error of the Estimate	Sig. F Change (P-value)
1	0.978 <sup>a</sup>	0.883	0.590	0.478	0.000

Source: Research Data (2014)

The P-value of 0.000 (Less than 0.05) implies that the model of performance among commercial banks in Kenya is significant at the 5 percent significance. As illustrated in table 4.14, the significance value is 0.000 which is less than 0.05 thus the model is statistically significance.

Table 4.15: Model Summary: Coefficient of Determination

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	7.711	3	3.959	2.701	0.012 <sup>a</sup>
Residual	20.799	26	1.466		
Total	28.510	29			

Source: Research Data (2014)

Table 4.15 shows a summary of the analysis of the model. The F critical at 5% level of significance was 27.711. Since F calculated is greater than the F critical (value = 2.701), this shows that the overall model was significant. Table 4.16 illustrates results of a linear regression analysis determining the effect of the independent variables (volume sales, customer acquisition cost and risk management and mitigation) on the dependent variable (performance). Using the results, we have the regression equation as

$$Y = 2.81 + 0.26X_1 + 0.25X_2 + 0.13X_3$$

Where Y is the dependent variable (performance in terms of revenue),  $X_1$  is volume sales,  $X_2$  is customer acquisition cost and  $X_3$  is risk management and mitigation.

Table 4.16: Coefficient of Determination

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.81	0.57		4.88	0.00
Volume Sales	0.26	0.13	0.253	1.98	0.05
Customer Acquisition Cost	0.25	0.14	0.209	1.83	0.07
Risk Management and Mitigation	0.13	0.14	0.105	0.87	0.39

Source: Research Data (2012)

According to the regression equation established, taking all factors into account with constant at zero, performance will increase by 2.81 units. The data findings analyzed also show that performance among commercial banks is greatly affected by volume sales followed by reduced customer acquisition cost and risk mitigation and management. Taking all other independent

variables at zero, a unit increase in volume sales increases revenue by 0.26 units while a unit decrease in customer acquisition cost will result in a 0.25 units increase in revenue generated in commercial banks. Lastly, a unit increase in risk management and mitigation will result in 0.13 units increase in revenue.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary

The study sought to establish the effect of social media interactions on financial performance of commercial banks in Kenya. The study found that all the commercial banks were found to have a social media site with Facebook and blogs being the commonly used platforms. However, a few banks use Twitter and LinkedIn. Most of the banks have a social media department that is housed within their marketing department and manned by the staff within the marketing department. This has increased the number of followers that commercial banks have recorded between 2011 and 2013.

In the 3-year period under study, 2011 – 2013, the commercial banks have witnessed a significant increase in the average number of new customers from 1,740 in 2011 to 5,000 in 2013. This has resulted to an increase in the average loan portfolio and revenue in terms of the interest earned. The end result has been better performance among the commercial banks in Kenya over the 3 years. The study also found that the adoption of adoption of social media interaction has led to a decrease in the cost of customer acquisition to a great extent. The average cost of acquiring a new customer now ranges between Kshs. 100 and Kshs. 300 among the commercial banks. This can be attributed to the fact that social media interaction is much cheaper compared to other forms of marketing available especially with the improvement in technology in the banking industry.

Another finding is that all operations related to social media interactions are undertaken and guided by a social media policy that ensures the banks exercise discretion when collecting,

processing and sharing customer information and consider privacy issues. The banks do review these policies periodically and when the need arises depending on the changes in the social media world. The reviews and monitoring ensure that all major risks associated with social media interaction are well managed and mitigated. Lastly, the analysis of the regression shows that the use of social media interaction has a great impact on the financial performance among commercial banks in terms of revenue. All the aspects (volume sales, CAC and risks management and mitigation) were found to increase performance among commercial banks in Kenya.

## **5.2 Conclusion**

Commercial banks have embraced social media interaction and Facebook is the dominant platform with the highest number of users and therefore the most commonly used for interaction between firms and customers. Social media interaction offers a platform for marketing, promotional campaign, access to real-time customer feedback to enhance banks' understanding of the needs of their customers. Social media interaction decreased commercial banks' cost of acquiring new customers which significantly increases their revenue from the uptake of loans. Policies and guidelines have been formulated to ensure appropriate utilization of social media sites by commercial banks.

## **5.3 Recommendations to Policy and Practice**

The study recommends that for commercial banks to have a wide social network, they should place some measures to encourage wide participation of the customers in social media interaction within their sites. Additionally, the study recommends that management to embrace social network as a way of interacting with customers who may not be reached in any mean other

than in social sites due to their fixed schedules. IT should be adopted in order to enhance banks' performance since through IT innovation is born through ideas and relevant information. Likewise the study recommends that nowadays without adoption of IT, commercial banks may not perform as per expectations due to competition in the market thus it's a vital tool for competitive advantages and better performance.

Commercial banks that have absorbed the information they get from the customers excel in their performance particularly in sales volumes which in return contributes to more revenue and profit. Consequently, the study recommends that feedbacks information from the customers should be strictly accesses so as to sort out the information that aims at improving the banks' performance since some of the information that may stream in to the banks may be provided by the competitors to mislead the bank hence failure to realization of their goals. Lastly, the study recommends that commercial banks that have no social media policies draft and adopt one to ensure that they are transparent and aligned with ethical business behavior in social media interactions.

#### **5.4 Limitations of the Study**

The responses were uncontrollable as some respondents feared expressing the correct opinion of the financial performance in their banks for fear of victimization. The respondents were explained to that the information would only be used for academic. This allowed them to be confident that they would not be persecuted of the information they gave.

It was hard to collect data from the employees since they were busy during the day. The researcher dropped the questionnaire and picked them at a later date. This allowed the respondents to fill the questionnaire at their own time.

The research was concerned only with the effect of social media interaction on performance of commercial banks in Kenya. It did not take into account other factors that affect performance in addition to sales volumes, CAC and risk management and mitigation.

### **5.5 Suggestion for Further Studies**

Due to constraints in the research in terms of costs and time, the following are the recommended areas for further research:

- i) The relationship between social media marketing and loan uptake among selected commercial banks in Kenya.
- ii) The effect of social media marketing and consumer buying behaviour among commercial banks in Kenya.

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## **APPENDICES**

### **Appendix I: Introduction Letter**

The Respondent,

Dear Sir/Madam,

Re: Request for Research Data

I'm a Postgraduate student pursuing a Master of Science degree in Finance (MSC) at the University of Nairobi. My research project topic is "The Effect of Social Media Interaction on Financial Performance of Commercial Banks in Kenya".

You have been selected to form part of those to provide the necessary data needed for this study. You are therefore kindly requested to assist by granting an opportunity for the filling in of the attached questionnaire at your convenience when contacted for an appointment.

The information you provide will be treated in strict confidence and is purely for academic purpose. In no way will your name appear in the final research report. Your assistance and cooperation will be highly appreciated.

**Mrs. Winfred Njeri Mutero**

## Appendix II: Questionnaire

Dear Sir/Madam

You are invited to participate in the above mentioned research project. The survey should only take 10 – 15 minutes to complete. To ensure confidentiality of all responses, you are not obliged to provide your name. The information you give in response to this survey will be purely used for academic purpose.

### Section A: Background Information

1. Name of the bank: \_\_\_\_\_
2. Using the categories below please indicate how long your bank has been in operation in Kenya.
  - a) 0-10 Years [   ]
  - b) 11-20 Years [   ]
  - c) 21-30 Years [   ]
  - d) 31 and above years [   ]
3. Please indicate the ownership of your Bank using the categories below (please tick one)
  - a) Predominantly local (51% or more) [   ]
  - b) Predominantly foreign (51% or more) [   ]
  - c) Balanced between foreign and local (50/50) [   ]

### Section B: Use of Social Media

4. Does your bank have a social media site?
  - i) If yes which of the following social media site do you use?
    - a) Facebook [   ]
    - b) Twitter [   ]
    - c) Blogs [   ]
    - d) WhatsApp [   ]
    - e) LinkedIn [   ]
    - f) Others (Specify)\_\_\_\_\_ [   ]
  - ii) Does your bank have a social media department?  
       Yes ( )      No ( )

If yes, how many staffs are employed in the department?

- iii) How many followers do you have on each site for the past 3 years?

Social media site	2011	2012	2013
Facebook			
Twitter			
Blogs			
WhatsApp			
Linkedin			
Others			

vi) Kindly indicate the level of agreement with the following statement as a reason for using social media in your bank.

Objective of using social media	Strongly Disagree	Disagree to some extent	Neither agree nor disagree	Agree to some extent	Strongly agree
Market Research	1	2	3	4	5
Access new markets	1	2	3	4	5
Develop new product brands	1	2	3	4	5
Selling of products	1	2	3	4	5
Collect data on customers	1	2	3	4	5
Customer relationship management	1	2	3	4	5

**Section C: Sales through social media**

5. Averagely, how many new customers has your bank acquired in the last 3 years through social media?

YEAR	2011	2012	2013
New customers			

6. Averagely, what was the loan portfolio of your bank the last 3 years?

YEAR	2011	2012	2013
Loan portfolio			

7. To what extent would you (dis)agree that the new customers acquired through social media interactions contributed to revenue growth in the last 3 years?

- i) Strongly disagree ( )
- ii) Disagree to some extent ( )
- iii) Neither agree or disagree ( )
- iv) Agree to some extent ( )
- v) Strongly Agree ( )

**Section D: Customer Acquisition Cost**

8. Has the adoption of social media interaction reduced the cost of customer acquisition in your bank?

Yes ( ) No ( )

9. What is the average cost of acquiring a customer in your bank?

10. What is the cost of running a social media site in your bank?

11. To what extent has social media interaction reduced customer acquisition in your bank?

- i) Not at all ( )
- ii) Little extent ( )
- iii) Moderate ( )
- iv) Great ( )
- v) Very great extent ( )



**Section E: Risk Management and Mitigation**

12. i) Does your bank have a social media policy?

If yes, how frequently is the policy reviewed?

- i) Quarterly
- ii) Half yearly
- iii) Yearly
- iv) Others (specify).....

13. Has social media interaction created risk management concerns in your bank?

If yes, what are the major risks brought about by social media usage

- i) Reputational risk
- ii) Operational risk
- iii) Data and information regulatory risk
- iv) Others (specify).....

14. How has your bank controlled the issues posted on social media sites to avoid such risks?

15. How frequently is the social media site monitored and updated?

- i) Hourly
- ii) Daily
- iii) Weekly
- iv) Monthly
- v) Others.....

**Thank you for your time and participation**

### **Appendix III: List of Commercial Banks in Kenya**

1. ABC Bank (Kenya)
2. African Development Bank
3. Afrika Investment Bank
4. Bank of Africa
5. Bank of Baroda – Kenya
6. Bank of India
7. Barclays Bank of Kenya.
8. Central Bank of Kenya
9. CFC Stanbic Bank
10. Chase Bank (Kenya)
11. Citibank NA Kenya
12. Commercial Bank of Africa
13. Consolidated Bank of Kenya
14. Co-operative Bank of Kenya
15. Credit Bank
16. Diamond Trust Bank
17. Dubai Bank Kenya
18. Ecobank
19. Equatorial Commercial Bank
20. Equity Bank
21. Family Bank
22. Fidelity Commercial Bank Limited
23. Fina Bank
24. First Community Bank
25. Giro Commercial Bank
26. Guardian Bank
27. Gulf African Bank
28. Habib Bank AG Zurich
29. HFCK
30. I & M Bank
31. Imperial Bank
32. Imperial Bank Kenya
33. Jamii Bora Bank
34. Kenya Commercial Bank – KCB
35. K-Rep Bank
36. National Bank of Kenya
37. NIC Bank
38. Oriental Commercial Bank Ltd.
39. Paramount Universal Bank
40. Post Office Savings Bank – Kenya
41. Prime Bank (Kenya)
42. Standard Chartered Bank – Kenya
43. Trans-National Bank Kenya
44. United Bank for Africa