

**RELATIONSHIP MARKETING AND CUSTOMER LOYALTY IN COMMERCIAL  
BANKS IN KENYA**

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## **DECLARATION**

### **Declaration by Student**

This research proposal is my original work and has not been presented to any university, institution for higher learning or examination body. No part of this work should be reproduced without my consent or that of the University of Nairobi – School of Business

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### **Declaration by the Supervisor**

This research proposal has been submitted for examination with my approval as the University Supervisor.

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Date: .....

**Lecturer Supervising**

**Victor Ndambuki**

## **DEDICATION**

I wish to give my special dedication to my family members especially my mother the Late Isabella Bonareri Momanyi. Although you are not here to see me finish the race I will always value the motivation you gave me, you kept me going at all times.

## **ACKNOWLEDGEMENT**

First is to give honor and praise to the Almighty God for giving me grace, strength, good health and providence during the time of my study. I wish to acknowledge the support of my supervisor, Mr. Victor Ndambuki, for his guidance through every stage of this project. I also want to thank my family members whose encouragement throughout the period of my study kept me going. Lastly I would like to thank the respondents for their cooperation and input. May the Almighty God, bless you all.

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## **ABSTRACT**

The exodus of customers from one bank to another is of concern in commercial banks in Kenya. The objective of the study is to establish the relationship between Relationship marketing and customer loyalty in commercial banks in Kenya. The study adopted a descriptive research design where by data was collected by questionnaires which were self-administered through drop and pick method. The population of interest for this study comprised all 44 commercial banks in Kenya.

The study used primary and secondary data. Primary data was collected using questionnaires. Secondary data was gathered by a review of existing materials on the topic under study and the Kenyan banks. The data from the field was coded according to the objective of the researcher. Data was coded and analyzed with the aid of Statistical Package for Social Sciences (SPSS). The data collected was analysed using descriptive statistics method tools of analysis, such as mean scores, percentages, and frequencies. The analysis involved descriptive statistics and content analysis. Data was then presented using tables, pie charts and graphs.

From the findings of the study, 48% agreed that relationship marketing affects customer loyalty to a great extent, 26% agreed that relationship marketing affects customer loyalty moderately, 16% said that relationship marketing affects customer loyalty to a small extent and 10% said that the factor affects to no extent. From this data, it can be concluded that relationship marketing affects customer loyalty to a large extent.

The study recommends that for organizations to enhance its customer loyalty, it should enhance its customer service quality in order to ensure customer satisfaction, thus the researcher recommends that commercial banks should come up with strategies that are realistic, measurable, well understood, all inclusive and easy to implement at all levels of the organization.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Relationship marketing is a concept that has gained popularity over the recent years; companies are beginning to understand the value that customers rather than products, generate from them. The concept of relationship marketing was originally introduced by Leonard Berry in 1983 when he made the distinction between relationship marketing which was based on the concept of developing a long term relationship with a customer, and transaction marketing, which viewed the customer in terms of one off transactions (Connor, Galvin, Evans, 2005). Relationship marketing (RM) aims at establishing, maintaining and enhancing relationships with customers and other parties at a profit so that the objectives of the parties involved are met

The concept of Relationship Marketing emerged within the broad areas of service marketing and Industrial Marketing (Lemon et al. 2002). In an era of increasing competition, firms have resorted to using Relationship marketing as a strategy to attract, maintain and enhance customer relationship and build loyalty (Wood 2008). Relationship marketing aims to establish maintain and enhance relationships with customers so that the objectives of the parties are met. Customer loyalty is considered to be a key factor in order to achieve company success and sustainability over time (Bansal et al. 2006). Developing customer loyalty has been an objective traditionally aimed at as this enables greater future purchase intention.

Due to increased competition today's companies are beginning to understand the value that customers, rather than the value the products generate for them. To retain these customers companies are now striving to develop meaningful relationships with key customers and more so to manage those customer relationships more pro-actively (Connor *et al*, 2004). Relationship marketing therefore attempts to create a more holistic, personalized brand experience (service) to create stronger customer ties.

Kenya's commercial banking sector is poised for major realignments on account of the stiff competition that the sector is witnessing. Banking is a customer oriented services industry; therefore the customer is the focus and Relationship Marketing the differentiating factor. To

enhance their relationships with select profitable customers, some commercial banks in Kenya are now specifically targeting special segments of customers like Muslims, Women, Chamas, Diaspora clients, Athletes etc. For instance, some banks such as National Bank of Kenya (NBK), Barclays Bank of Kenya (BBK) have special accounts for Muslim clients that are 'sharia' compliant. The Standard Chartered Bank also introduced in the market Diva club account and Diva chama account, the latter targeting women in investment clubs. I&M Bank on the other hand also introduced the Malaika account that is targeted at women. Recently BBK launched Barclays Premier Life, formerly Barclays Prestige which are exclusive customer-centered outlets targeting its high end valued customers. Banks are working hard on maintaining customer loyalty, demonstrated by how banks are seeking closer relationships with target customers. Banks are seeking to understand fully their target customers and create superior value for them in order to achieve market competitiveness.

### **1.1.1 The Concept of Relationship Marketing**

According to Doyle P and Stern P (2006), Relationship marketing is a long term continuous series of transactions between parties which occurs when each trusts each to deal fairly, reliably and helpfully. Traditional transaction marketing focuses on the completion of the transaction and the pursuit of maximizing profits for each transaction. Relationship marketing, on the other hand, focuses on the establishment of strong relationships and stable partnerships in order to maximize the pursuit of the interests of all aspects of the relationship. Relationship marketing has therefore emerged as a popular new paradigm due to shift in focus from customer acquisition to customer retention (Sheth and Parvatiyar 1995).

The concept of relationship marketing has evolved as a result of intense global and local competition. Organizations have realized that long term mutually beneficial relationships are the way forward. Gummesson (2004) a number of companies are today shaping separate officers, services and messages to individual customers based on information about past transactions, demographics, psychographics and media and distribution preferences. By focusing on their most profitable customers, products and channels these firms hope to achieve profitable growth capturing a larger share of each customer's expenditure by building high customer loyalty.

Relationship marketing is aimed at retaining existing customers since attracting new customer may cost up to 5 times more than retaining an existing customer.

Relationship marketing is not only at the customer service point or at relationship manager level but at every point in the organization. Customers have today become more knowledgeable, sophisticated and assertive, with an increasing demand for tailor-made and innovative products and services. It is therefore crucial for banks to have strong relationships with their evolving customers, in order to ensure long term relationships with them. Commercial banks in Kenya are now aiming at increasing the size of their customer's wallet. They have realized the benefits from lowered costs and increased profitability from the long term relationships.

### **1.1.2 The Concept of Customer Loyalty**

Oliver (1999) has described loyalty as a deeply held commitment to rebuy or patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior. Customer loyalty expresses an intended behavior related to the service or the company. This includes the likelihood of future renewal of service contracts, how likely it is that the customer changes patronage, how likely the customer is to provide positive word-of-mouth, or the likelihood of customers providing voice. If real alternatives exist or switching barriers are low management discovers the organization's inability to satisfy its customers via two feedback mechanisms: exit and voice (Gronroos 2004)

Customer loyalty in banking has been a major concern to practitioners due to severe competition and higher customer expectations. Customer loyalty is considered a vital link and aspiration to organizational success, profit and business performance (Oliver, 1997; Gronroos, 2000). The consumers that show the greatest levels of loyalty toward the product, or service activity, tend to repurchase more often, and spend more money. Thus, loyal customers do not only increase the value of the business, but also enable business to maintain costs lower than those associated with attracting new customers (Barroso and Martin, 1999). Moreover, loyalty rather than satisfaction is becoming the number one strategic goal in today's competitive business environment (Oliver,

1999). One of the ways to enhance customer loyalty in banking is by focusing on offering excellent services and meeting the needs of customer.

### **1.1.3 Commercial Banks in Kenya**

Banks in Kenya are either locally or foreign owned. Kenya has 44 banks; 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise three banks with significant shareholding by the Government of Kenya and State Corporations, 27 commercial banks and one mortgage finance institution. In the 1990s the government introduced a number of policy reforms aimed at a gradual liberalization of the financial markets opening the banking sector to unprecedented growth. As a result, the banking sector grew to 33 commercial banks and 50 non-bank financial institutions (NBFIs) by 1994. By the end of 2009, this number amounted to 46 banks with a total branch network of 500 (Central Bank of Kenya, 2009). Currently the number stands at 44 due to mergers.

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. The banking sector is becoming increasingly competitive in Kenya. This is particularly true since the number of banks has been increasing over the years and all compete for the same customers. This calls for measures to ensure that banks maintain good relations with their clients by increasing brand equity and customer loyalty. There is an increased need for banks to differentiate themselves from competitors at the augmented product level. One way that this might be achieved is to develop longer-term relationships with their key customers. Banks ought to identify who their potentially profitable customers are, understand their particular needs and offer the customized services needed to attract, retain and grow their relationships with them in order to attain competitive advantage.

## 1.2 Research Problem

Pelsmacker *et al* (2005), one of the trends in marketing today is the increasing importance of building customer loyalty instead of attracting and seducing new customers. Traditionally banks operated in relatively stable environment for decades, but today the industry is faced with increased competition from upcoming new banks and micro finance institutions. Customers who have traditionally been reluctant to switch banks are now demanding for better services and are willing to switch banks if they are offered better services elsewhere (Farquhar, 2004; Lam & Burton, 2006).

In the banking industry the importance of relationship development and maintenance with key customers has previously been investigated (Madill *et al.*, 2002). Some of the benefits of strong relationships with key customers include increased profit through reduced risk, improved communication links, and referrals (Hawke and Heffernan, 2006) and an increase in customer satisfaction leading to more loyal customers (Tyler and Stanley, 1999). Further, studies of the banking sector in different corners of the world have highlighted how the development of effective relationships has led to increased customer satisfaction (Jamal and Naser, 2002) and commitment (Abratt and Russell, 1999). Probably the most researched component of successful relationships is the development of trust (Morgan and Hunt, 1994).

In Kenya, relationship marketing concept has also received a considerable focus from researchers. Locally, various Scholars have reviewed the concept of relationship marketing in different contexts. Kuria (2001) investigated the state of relationship marketing strategy in the Kenyan banking sector. Njuguna (2003) did a study on the use of relationship marketing strategy by supermarkets in Nairobi. Chemutai (2006) did a survey of the adoption of relationship marketing strategies in the Cooperative Bank of Kenya. Wanza (2010) did a survey of Customer Relationship marketing practices among commercial banks in Kenya. From her findings it emerged that loyalty oriented customer relationship marketing activities are not enhanced in most commercial banks in Kenya. Little research has been conducted to obtain a better understanding of relationship marketing and customer loyalty in commercial banks in Kenya. Thus the study aims to answer the following research question; what is the relationship between relationship marketing and customer loyalty in commercial banks in Kenya?

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

The objective of the study is to establish the relationship between Relationship marketing and customer loyalty in commercial banks in Kenya.

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

It's expected that the study will be of important to various audiences. Management and policy makers of commercial banks in Kenya may use the findings of the study in crafting of viable strategies to assist in attaining and retaining key customers in the bank as well as remain competitive in the industry. It is anticipated that the findings will help in come up with strategies of improving the level of service quality.

Relationship managers and other practitioners in the service industry will also find the results of this study useful. They may use the findings while initiating the process of customer acquisition as well as when offering financial services and advise to the customers on the banks products. From this they will be able to make informed decisions to evaluate the value of the customers, and this will ultimately lead to good customers service and low level customers switching to other service providers.

Academicians, researchers and scholars will gain from this research. The academicians will find the study useful as it will be used as an avenue for further research and also will contribute to new knowledge. Researchers will use the study to further their study in this area by reviewing the empirical literature and establishing study gaps to fill.



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

The development of marketing is influenced by the development of the society and its economy. Ngahu(1986), states that marketing management must change to suit the needs of the society. It has to keep abreast of the changes being experienced in the wider society for it to maintain its place and play its role in the society. Over the past years, a major shift has occurred in the way marketers approach customers. Researchers assert a paradigm shift from the traditional marketing to relationship marketing (Gronroos 2000).

#### 2.2 Theoretical Background

Gronroos (2000) contend that relationship marketing is a process where all marketing activities are directed at establishing, developing, and maintaining successful long-term relational exchanges. It is the process of attracting, maintaining, and in multi-service organizations enhancing customer relationships (Berry, 1983). Relationship marketing consists of three important elements, namely planning and controlling of customer satisfaction, building and maintaining customer loyalty, and customer value management (Doyle, 2002). Customer satisfaction is one of the important results of purposeful marketing activity. Service firms leverage relationship marketing to develop and cultivate long-term mutual and beneficial customer relationships (Hunt *et al.* 2006).

Customer satisfaction encompasses overall consumer fulfillment and experience about a firm's product or service (Oliver, 1999). It is one of the important determinants of long-term customer relationship. This study is based on two main theories namely the social exchange theory and the commitment-trust theory. The theories seek to explain the basis of Relationship marketing

##### 2.2.1 The Social Exchange Theory

A theoretical basis that explains the relationship between relationship marketing and customer loyalty, customer satisfaction and value can be drawn from the social exchange theory. The

theory attempts to explain the nature of the relationships between service quality, perceived value, satisfaction and loyalty. The theoretical model adopted for this study was derived from the social exchange theory (Homans, 1958), which posits that all human relationships are formed by the use of cost-benefit analysis and comparisons of alternatives. Homans suggested that when an individual perceives the cost of a relationship outweighs the perceived benefits, then the person will choose to leave the relationship. The theory further states that persons that give much to others try to get much from them, and persons that get much from others are under pressure to give much to them. Social exchange theory indicates that individuals are willing to maintain relationships because of the expectation that to do so will be rewarding.

Social Exchange theory has served as a theoretical foundation to explain different situations in business practices. It has contributed to the study of organization-stakeholder relationships and relationship marketing. The investment model proposed by Caryl Rusbult is a useful version of Social Exchange Theory. According to this model, investments serve to stabilize relationships. The greater the nontransferable investments a person has in a given relationship, the more stable the relationship is likely to be. The same investment concept is applied in relationship marketing. The theory is appropriate for this study because service encounters can be viewed as social exchanges with the interaction between service provider and customer being a crucial component of satisfaction and providing a strong reason for continuing a relationship (Barnes, 2007). Social exchange theory attempts to account for the development, growth and even dissolution of social as well as business relationships.

### **2.2.2 The Commitment-Trust Theory**

The commitment-trust theory of relationship marketing says that two fundamental factors, trust and commitment, must exist for a relationship to be successful. In other words companies must develop both commitment and trust with the customer in order to successfully retain them. According to Brink and Berndt (2004), trust is the confidence both parties in the relationship have that the other party won't do something harmful or risky. Businesses develop trust by standing behind their promises. Commitment on the other hand involves a long-term desire to maintain a valued partnership. That desire causes the business to continually invest in developing

and maintaining relationships with its customers through a series of relationship-building activities, thus the business shows its commitment to the customer.

In their white paper "Commitment-Trust Theory of Relationship Marketing," marketing experts Robert M. Morgan and Shelby D. Hunt name three reasons why commitment and trust are so important in Relationship marketing. It encourages cooperation between the two parties, discourages companies from putting short-term alternative clients in front of long-term clients and also allows them to feel more comfortable taking risks knowing that the customer is committed and trusts the company. Relationship marketing involves forming bonds with customers by meeting their needs and honoring commitments. Rather than chasing short-term profits, businesses following the principles of relationship marketing forge long-lasting bonds with their customers. As a result, customers trust these businesses, and the mutual loyalty helps both parties fulfill their needs.

### **2.3 Empirical Literature Review**

The relationship between the client and bank is influenced by the quality of the service the client receives from the banks they operate with (Crosby *et al.*, 1990). Much emphasizes is therefore placed on the need to maintain high service levels since all the banks products are easily copied and all the banks are competing for the same customers. According to Gronros (2000), relationship marketing is the ongoing process of identifying and creating new value with individual customers and benefits of a lifetime of association.

#### **2.3.1 Relationship Marketing and Customer Loyalty**

Hawkins *et al* (2001) listed five key elements of relationship marketing; developing a core service or product around which to build a customer relationship, customizing the relationship to the individual customer, augmenting the core service or product with extra benefits, pricing in a manner to encourage loyalty, and marketing to employees so that they will perform for customers. The primary goal of relationship marketing is to build and maintains a base of committed customers who are profitable for the organization. Relationship marketing recognizes that it is more profitable to retain and grow business with existing customers than to keep winning new ones and therefore has customer retention as its main objective. To build customer

loyalty, companies try to improve customer satisfaction, which strengthens bonds by adding more value to the core product (the product quality is improved; supporting services are included into the offering and so on.).

According to (Gronroos 2000) customer satisfaction is one of the most important criteria for customer loyalty. Customer satisfaction indicates how well a product use experience compares to the buyers value expectations and the value expectations of competitors. Customer loyalty through one on one-customer relationships is one of the most important real assets with measurable long-term value for both large and small companies. According to Hawkins *et al* (2001) committed customers, in a retail setting are developed by understanding customer's desires at every stage of the shopping process, from retail advertisement through to disposition of the products. At every stage the retailer needs to move customers beyond satisfaction through delight and to affection. In a study conducted by Gabarino and Johnson (1999), in a consumer environment in which customers receive highly similar services, like in the banking sector, the future intentions of low relational customers was found to be driven by overall satisfaction, whereas the future intentions of the highly relational customers was found to be driven by trust and commitment.

In today's hypercompetitive environment decision makers must understand the various aspects of relationship marketing as they are imperative for the effective relationship development between the firm and the customer, and for implementing effective relationship marketing strategies (Musa 2009). Jamal and Nasser (2002) points out that an increase in a retail bank's quality service results in an increased customer loyalty and retention. Both product and service quality are essential for customer satisfaction and retention. Their study of retail banking sector in UAE found that service quality dimensions are important drivers for customer satisfaction, where core and relational dimensions of service quality are causal antecedents of customer satisfaction

### **2.3.2 Relationship Marketing and Banking**

Today's world is one where customers have a lot of options of product vendors, which makes for a very picky customer. This means that customers have an increasing rate of expectation and a

decreasing level of tolerance. These and other major factors like intense competition, undifferentiated products have resulted in the need for relationship marketing. A number of authors like Yavas et al, 2004; O'Loughlin et al., 2004; Lang and Colgate, 2003; Jamal and Naser, 2002, have investigated the imperatives of relationship marketing in the financial/banking sector. Relationship marketing is a new paradigm shift in marketing theory and practice used in a number of industries such as in service industry to acquire and retain customers and most importantly to build and maintain customer relationship and loyalty (Gronroos, 2004)

The need for firms to remain competitive and successful in the long term has created the concept of Relationship Marketing, that is, establishing, developing, and maintaining successful relational exchanges, which constitutes a major shift in marketing theory and practice (Morgan and Hunt, 1994). Relationship marketing emphasizes on the value of retained customers and advocates that firms must be successful in retaining their customers if they are to grow profits and sales. Over the last few decades there has been a shift of the marketing theory and practice from transactional-oriented marketing to relational-oriented marketing. This is out a realization that maintaining customers already acquired is less expensive than acquired new ones.

The banking industry traditionally offers products and services that are simply commodities. Essentially, there are little or no differentiations in products and services banks offer to their customers. However, where there is no differentiation, there is no competition. Panda (2003) asserts that because most of the core products and services banks offer to customers are commodities, it is difficult for them to compete. To differentiate their products and services, build long-term relationships, and gain competitive edge banks must embrace customer relationship marketing strategy. Thus, these needs can lead to growth in the implementation of relationship marketing in banks and in financial services. Abratt and Russel (2000) emphasizes that long-term relationship is an important source of marketing strategy firms can deploy to ward of competition and sustain profitability margins in the long run.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This section describes the method the researcher applied in carrying out the study. It includes the research design, target population, instruments of data collection and data analysis.

#### **3.2 Research design**

The researcher used cross sectional descriptive research design. A cross sectional descriptive survey was undertaken in order to ascertain and be able to describe the characteristics of the variable of interest in the study. A cross sectional survey enables data to be collected across several respondents at the same time (Cooper and Schindler, 2003). The research aimed at offering a profile of the phenomena of interest from a specific perspective. The research was restricted to fact findings and the results were used in forming important principles of knowledge and solutions to significant problems.

#### **3.3 Population of study**

The study had a population of 44 commercial banks as listed by the Central Bank of Kenya as at December 2013 (see appendix 3). The banks are grouped by Central bank according to total asset base with 12 being large, 19 medium and 13 being small banks. This being a survey all the 44 banks were incorporated in the study.

#### **3.4 Data Collection**

The study collected data from all commercial banks in Kenya. Respondents for the study comprised the Corporate banking relationship managers or their equivalent, from each banks head office in Nairobi. This therefore gave rise to a total number of 44 respondents. Research questionnaires were personally administered to the respondents. The questionnaire had have four parts; section A covered background information of the bank, section B covered relationship marketing strategies in commercial banks, section C covered customer loyalty in commercial banks and finally section D covered relationship marketing and customer loyalty in commercial

banks. The drop-and-pick method of distribution was used to administer the research instrument, because of the need to collect detailed and well thought out responses. The method offered the respondents time and privacy to fill in the questionnaire at their convenience.

### **3.5 Data Analysis and Presentation**

Both quantitative and qualitative techniques were used. The data from the questionnaires was coded and analyzed with the aid of Statistical Package for Social Sciences (SPSS). The data obtained from the research instruments was analyzed by use of descriptive statistics; frequencies and percentages, means and standard deviations as well as inferential statistics; correlations and one way variance analysis and regression of variables. Content analysis was used to analyze the respondents' views about the nature and extent of relationship marketing and customer loyalty in commercial banks in Kenya. The data was then presented in form of frequency tables, charts and bar graphs.

## CHAPTER FOUR

### DATA ANALYSIS, FINDINGS AND DISCUSSION

#### 4.1 Introduction

This chapter presents analysis and findings of the study. The purpose of the study was to analyze and logically present the data collected by the researcher in the light of the objective. The data of the study was gathered exclusively by use of questionnaire as the research instrument. The questionnaire was designed in line with the objective of the study. The analysis is presented in form of frequency distribution tables and expressed in terms of percentages, bar graphs and interpretations to that effect.

##### 4.1.1 Response Rate

Out of the forty-four commercial banks that were targeted, forty responded by returning filled questionnaires. This formed 92% response rate, which were considered adequate for analysis as shown in the table below.

**Table 4.1: Response Rate**

<b>Response Rate</b>	<b>Frequency</b>	<b>Percentage</b>
Responded	40	92
Non-response	4	8
<b>Total</b>	<b>44</b>	<b>100</b>

**Source: Author (2014)**

To achieve the study objectives, respondents were presented with a number of relationship marketing practices and were required to score on a 5-point likert scale the extent to which the adopted by the commercial banks.

#### 4.2 General Information

##### 4.2.1 Ownership structure

In this question the respondents were asked to indicate the ownership structure of their banks. The results are as shown in the table below.



**Table 4.2: Ownership structure**

<b>Ownership</b>	<b>Frequency</b>	<b>Percentage</b>
Locally owned	34	85
Foreign owned	6	15
<b>Total</b>	<b>40</b>	<b>100</b>

**Source: Author (2014)**

The data above shows that the majority (85%) of the respondents indicated that their banks were locally owned while 15% of the respondents said that their bank was foreign owned. It can be argued most clients are likely to transact business with local banks due to the fact that the majority of banks are owned locally. However, foreign banks are likely to attract foreign clients or clients with huge amounts of money because of their stability.

#### **4.2.2 Length of operation**

The question sought to establish the length the banks have been in operation in Kenya. The findings are shown in the table below.

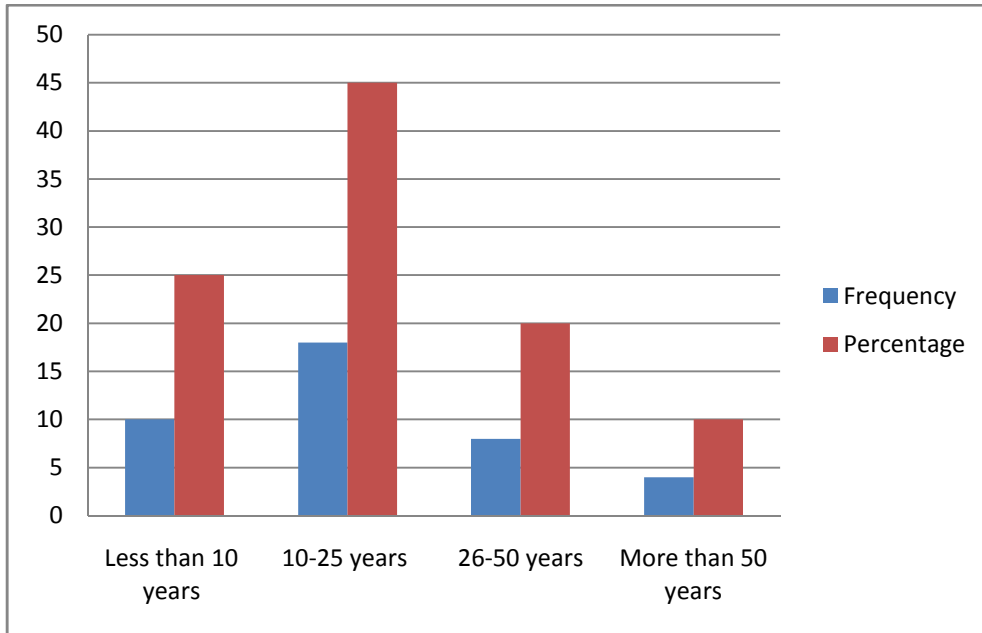
**Table 4.3: Length of operation**

<b>Length of operations</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 10 years	10	25
10-25 years	18	45
26-50 years	8	20
More than 50 years	4	10
<b>Total</b>	<b>40</b>	<b>100</b>

**Source: Author (2014)**

The above data shows that the majority (45%) of the respondents said that their banks have been in existence 10-25 years, 25% said that their banks had existed for less than 10 years, 20% reported that their bank had existed for 26-50 years and only 10% indicated that their bank has existed for more than 50 years. It appears that the majority of banks had existed for 10-25 year.

This can be attributed to the fact that the organizations have been able to satisfy the needs of their clients hence building customer loyalty.



*Figure 4.1: Length of operation*

#### 4.2.3 Current client base

To the study sought to find out the client base of the banks that are operating in Kenya. The results are as follows

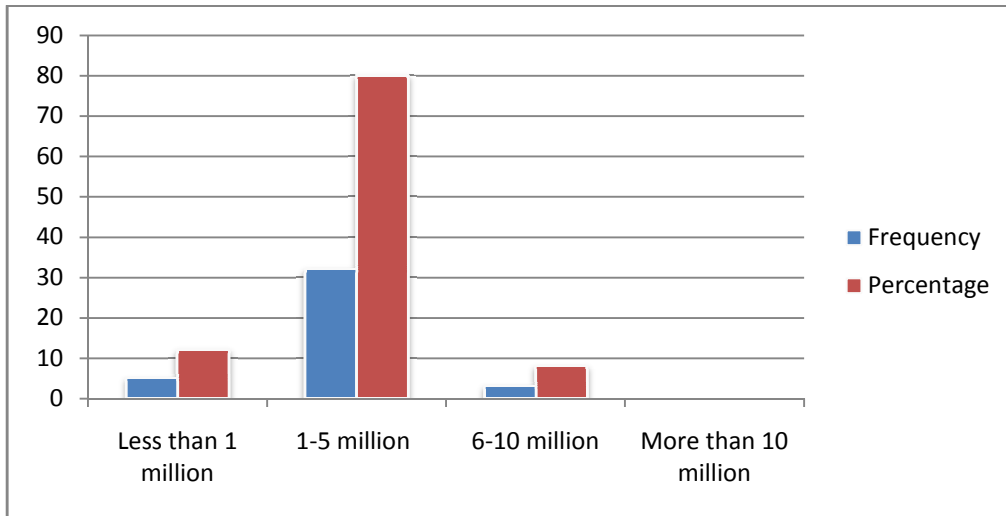
**Table 4.4: Current client base**

Client base	Frequency	Percentage
Less than 1 million	5	12
1-5 million	32	80
6-10 million	3	8
More than 10 million	0	0
<b>Total</b>	<b>40</b>	<b>100</b>

**Source: Author (2014)**

The data in the table above shows that the overwhelming majority (80%) of the respondents reported that their banks had 1-5 million clients, 12% indicated that their banks had less than 1

million customers while 8% said that their banks have 6-10 million customers. None of the banks had a customer base of over 10 million customers. This finding suggests that the majority of the banks have been able to attract many customers over their years of existence. This can be explained by the fact that the banks have given incentives and thus switching cost could be high due to loss of benefits that are given to customers.



*Figure 4.2: Current client base*

### 4.3 Relationship marketing strategies in Commercial Banks

#### 4.3.1 Mission Statement

The study sought to know whether the various commercial banks have a mission statement

**Table 4.5: Mission Statement**

Response	Frequency	Percentage
Yes	40	100
No	0	0
<b>Total</b>	<b>40</b>	<b>100</b>

Source: Author (2014)

The above data shows that all (100%) of the respondents said that their banks have a mission statement. It can be argued that all the banks have developed a strategic plan which contains the mission statement. This plan would help the banks achieve a competitive advantage in the banking industry. This is supported by the findings in the literature review that a mission statement contains the core values that help to build relationships with their customers

#### 4.3.2 Content of the bank’s Mission statement

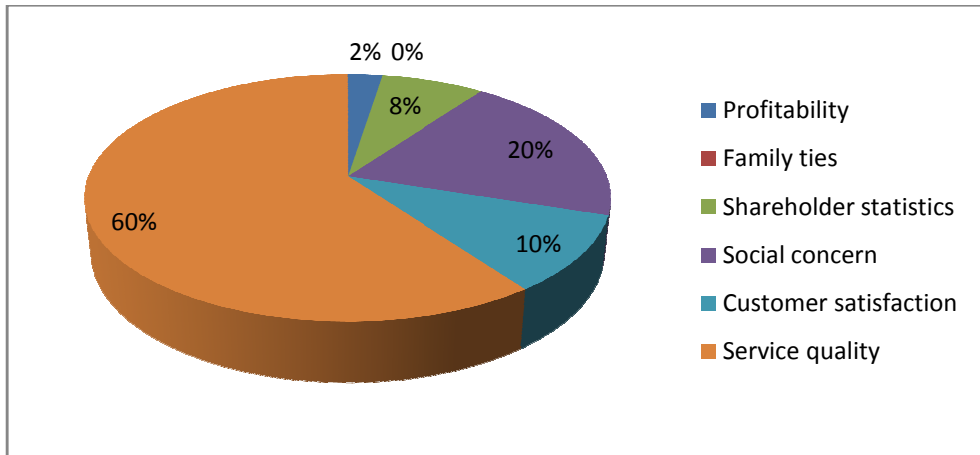
The study required the respondents to state the main elements captured in the mission statements that the bank

**Table 4.6: Content in the bank’s Mission statement**

<b>Content in Mission statement</b>	<b>Frequency</b>	<b>Percentage</b>
Profitability	1	3
Family ties	0	0
Shareholder statistics	3	7
Social concern	8	20
Customer satisfaction	4	10
Service quality	24	60
<b>Total</b>	<b>40</b>	<b>100</b>

**Source: Author (2014)**

The above data show that 60% of commercial banks in Kenya have captured service quality in the mission statement of the bank, 20% have captured social concern, 10% have captured customer satisfaction, 7% have captured shareholder statistics and 3% have captured profitability.



**Figure 4.3: Content in the Mission Statement**

### 4.3.3 Relationshipmarketing in commercial banks

The respondents were asked to indicate the degree to which they agreed or disagreed with statements related to relationship marketing in commercial banks the statements focused on; retaining and growing customer relationships with existing customers, attracting new clients and developing new business, increase of name recognition and awareness and finally effective communication. The findings are shown below

**Table 4.7: Retaining and growing relationships with existing clients**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	4	9.5	10.0	10.0
	Agree	6	14.3	15.0	25.0
	Strongly Agree	30	71.4	75.0	100.0
	Total	40	95.2	100.0	
Missing	System	2	4.8		
Total		42	100.0		

**Source: Author (2014)**

The majority (75%) of the respondents strongly agreed that the banks have a keen interest on client service and customer satisfaction. The majority (88%) agree that the bank encourages cross marketing and cross selling of bank products to clients. Over half (60%) of the respondents agreed that banks have adopted an open door policy to its customers. 40% disagreed that the banking hall is comfortable and relaxing for clients. This section have been used to shade more light on what extent banks are working on retaining and growing relationships with the existing clients.

**Table 4.8: Attracting new clients and developing new business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	disagree	35	83.3	87.5	87.5
	Neutral	5	11.9	12.5	100.0
	Total	40	95.2	100.0	
Missing	System	2	4.8		
Total		42	100.0		

**Source: Author (2014)**

The majority (83%) of the respondents agreed that banks work on introducing new products or upgrade its current products to suit the market. The overwhelming majority (95%) strongly agreed networking is one of the means that banks use to target new clients and develop new business for the bank. Below half (35%) disagreed the bank encourages targeted business development. The majority (87%) agreed the bank engages in marketing research in order to keep up with market trends and have consumer insight. This section sought to investigate strategies banks are using to attract and develop new business.

**Table 4.9: Increase Name recognition and awareness**

		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Valid	Neutral	4	9.5	10.0	10.0
	Agree	24	57.1	60.0	70.0
	Strongly Agree	12	28.6	30.0	100.0
	Total	40	95.2	100.0	
Missing	System	2	4.8		
Total		42	100.0		

**Source: Author (2014)**

The majority (77%) agreed that banks use marketing communication tools e.g. Advertising, sales promotions, trade show etc. to create of product awareness for the various products that they have to offer. An overwhelming majority (90%) of the respondents strongly agreed banks recognize the value of brand and identity development for the purpose of awareness of the bank and brand loyalty. Half (50%) of the respondents agreed that the banks use public relations and media relations as a means of reaching out to its publics. Slightly over half (55%) of the respondents strongly disagreed that banks engage in community involvement and development as a way to reach out to its clients. With this it clear that banks are working on increasing name recognition and awareness in order to build relationships with their clients

**Table 4.10: Effective Communication**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly Disagree	8	19.0	20.0	20.0
disagree	16	38.1	40.0	60.0
Neutral	2	4.8	5.0	65.0
Agree	6	14.3	15.0	80.0
Strongly Agree	8	19.0	20.0	100.0
Total	40	95.2	100.0	
Missing System	2	4.8		
Total	42	100.0		

**Source: Author (2014)**

Below half (38%) of the respondents strongly disagreed that the bank has well laid out procedures for handling to customer complaints e.g. a call center. Below half (45%) of the respondents strongly disagree that the bank has a comprehensive marketing data base and information management system for data collection which enables collection of customers bio data. The majority (73%) of the respondents strongly disagreed the bank holds events for their long standing customers' e.g. golf tournaments, lunches, dinners with the senior team from the bank in order to interact with the customers. The overwhelming majority (95%) agreed that the bank has a website where clients can get comprehensive information on the bank and its products

#### **4.4 Customer Loyalty in Commercial Banks**

The respondents were asked to rate statements related to customer loyalty in commercial banks.

**1. Strongly Disagree 2. Moderately disagree 3. Not sure. 4. Agree 5.Strongly agree**

**Table 4.11: Customer loyalty in commercial banks**



	1	2	3	4	5
Loyal customers give positive word of mouth testimonies to others about this bank	0	0	0	38	2
Loyal customers do not intend to leave the bank in the future	0	0	0	0	40
As compared to other banks, customers are loyal with this bank	0	0	31	9	0
Customers of the bank are quick to take and use other products and services of the bank	11	3	10	16	0
Loyal customers find it difficult to switch to other banks because of what they get from this bank	0	1	0	1	38
The bank's achievement thrives on the solid relationship it has with its customer	0	0	1	4	35

**Source: Author (2014)**

The overwhelming majority (95%) agreed that loyal customers give positive word of mouth testimonies to others about this bank. All (100%) of the respondents strongly agreed that Loyal customers do not intend to leave the bank in the future. The majority (78%) of the respondents were not sure whether As compared to other banks, customers are loyal with this bank. Below half (40%) of the respondents agreed that Customers of the bank are quick to take and use other products and services of the bank. The overwhelming majority (97%) strongly agreed loyal customers find it difficult to switch to other banks because of what they get from this bank. The majority (88%) of the respondents strongly agreed that the bank's achievement thrives on the solid relationship it has with its customer.

## 4.5 Relationship Marketing and Customer Loyalty in Commercial Banks

In this section the respondents were asked to state how the service quality of the bank is unique from other banks. The majority (81%) said that the products were highly differentiated, 68% reported that the services were customized to suit customer needs and others (50%) indicated that the services were cost effective.

### 4.5.1 The relationship between the bank and bank clients

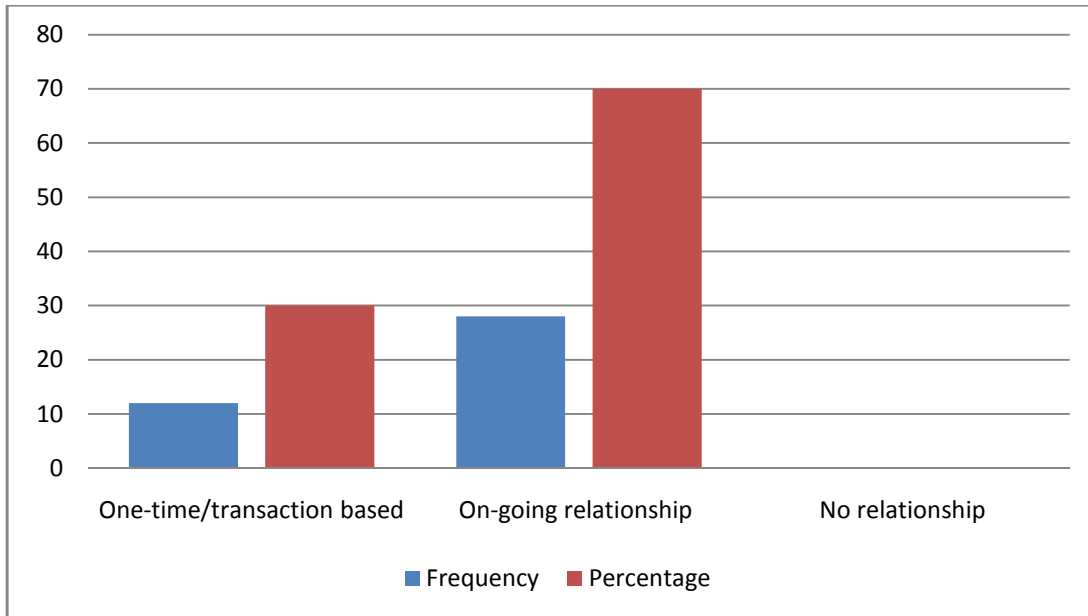
The study sought to find out the relationship between the bank and its clients. The results are shown on the table below.

**Table 4.12: Relationship between the bank and bank clients**

<b>Classification</b>	<b>Frequency</b>	<b>Percentage</b>
One-time/transaction based	12	30
On-going relationship	28	70
No relationship	0	0
<b>Total</b>	<b>40</b>	<b>100</b>

**Source: Author (2014)**

The data in the table above shows that the majority (70%) of the respondents said that the relationship between the bank and clients is on-going in nature while 30% indicated that the relationship is one-time transaction based. For those who said that it is an on-going relationship, it can be attributed to the fact that the clients are account holders in the bank. For those who said it was a one-time transaction, the clients might not be having bank accounts and could either be depositing cheques for other people, withdrawing money or making enquiries.



*Figure 4.4: Relationship between the bank and bank clients*

#### 4.5.2 Client relations and loyalty

The study sought to find out if a client's relations with the bank lead to customer loyalty. The results are shown on the table below.

**Table 4.13: Client relations and loyalty**

Response	Frequency	Percentage
I don't think so	0	0
I think so	39	98
Not sure about this	1	2
<b>Total</b>	<b>40</b>	<b>100</b>

**Source: Author (2014)**

The data above shows that the majority (98%) of the respondents indicated that they agreed that client relationship led to loyalty and only 2% were not sure whether or not client's relation with the bank led to loyalty.

### 4.5.3 Has Relationship marketing improved customer loyalty?

The study sought to find if the adoption of Relationship marketing has improved customer retention and customer loyalty in commercial banks. The results are shown on the table below.

**Table 4.14: Has Relationship marketing improved customer loyalty**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	37	93
No	3	7
<b>Total</b>	<b>40</b>	<b>100</b>

**Source: Author (2014)**

As shown in the table above, the majority (93%) agreed that relationship marketing has improved customer loyalty and 7% disagreed that relationship marketing has improved customer loyalty.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter provides the summary of the findings from chapter four. The chapter also gives the conclusions and the recommendations of the study based on the objective of the study. The objective of this study was to establish the relationship between Relationship marketing and customer loyalty in commercial banks in Kenya.

#### **5.2 Summary of the Findings**

Relationship marketing has become one of the best approaches that an organization can adopt with the aim of building relationships with its customers and maintaining their loyalty. The aim of exceeding customer expectations and ensure customer satisfaction is best achieved through Relationship marketing. Improved Relationship marketing greatly helps an organization to remind customers of their importance and assure them of the best thus winning their trust and increase their loyalty. From the findings, 48% agreed that relationship marketing affects customer loyalty to a great extent, 26% agreed that relationship marketing affects customer loyalty moderately, 16% said that relationship marketing affects customer loyalty to a small extent and 10% said that the factor affects to no extent. From this data, it can be concluded that relationship marketing affects customer loyalty to a large extent.

The study found that banks have various relationship strategies that are used to retain and grow relationships with existing clients, attract new clients and develop new business, increase name recognition and awareness, and effective communication between the bank and its clients. The study went further to look into elements that encourage customer loyalty and how to know if customers are loyal to the organization. This was brought out through positive word of mouth, customers not intending to leave the bank, quick take-up of new products that the bank introduces, difficulty in switching banks and banks thriving on the solid relationship it has with its customers. With this in mind the study found that the majority (93%) of corporate relationship

manager in commercial banks in Kenya agreed that relationship marketing has improved customer loyalty in banks and 7% disagreed that relationship marketing has improved customer loyalty.

### **5.3 Conclusions**

The findings indicated that the banks, to a large extent, have adopted relationship marketing practices that range from entering into one-to-one communication with customers up to and including ensuring adherence to laws and regulations governing the conduct of business and maintaining high ethical standards. The study findings also revealed that commercial banks have, to a large extent, adopted customer satisfaction practices. Key among them is that the banks strive to provide a range of quality products, appropriate to the customers' needs (mean score-4.09) and being speedy and efficient in handling customer complaints (mean score-4.06). With respect to the second objective, the study findings showed that all the relationship marketing practices presented to the respondents were, to a large extent, perceived to have an effect on customer loyalty. It was observed from the findings that most of the practices had mean scores ranging between 3.00 and 3.99, and only two had mean scores of 4.00 and above.

### **5.4 Recommendations**

Analysis from the study findings indicated that Relationship marketing affected customer loyalty. Thus the researcher recommends that commercial banks should come up with strategies that are realistic, measurable, well understood, all inclusive and easy to implement at all levels of the organization. The study recommends that for organizations to enhance its customer loyalty, it should enhance its customer service quality in order to ensure customer satisfaction. Customer satisfaction can be enhanced through reducing waiting time in banking halls, resolving customer complaints in a timely manner and effective communication with its customers.

Commercial banks should also desire to involve the key persons in the business set up who in most instances are the employees. This would in turn put more meaning during the implementation process. Training should be enhanced to improve on the performance of the employees through taking them to seminars or holding workshops for them to learn more on the necessary operations pertaining the well-being of the company. Training is important in every

commercial bank in order to attain compliance. Commercial banks should study their competitor's strategy to be able to deal with stiff competition. Adopting a competitive advantage approach may be offering differentiated products that satisfy the target customers better than the competitors. Also targeting different markets that other competitors have not ventured and producing variety of products/services so that customers are lost for choice.

Employees should be empowered and well trained so as to offer exceptional services. In order to empower employees, it is recommended that the commercial banks adopt a service recovery approach which seeks to give employees some autonomy such that they can attend to customer issues without seeking the intervention of management. Transport commercial banks can also establish a fully-fledged relationship marketing team that is mandated to train staff and administer relationship marketing issues. Quality service means happy customers and guaranteed repeat business.

### **5.5 Suggestions for Further Study**

This study has explored the relationship between Relationship marketing and customer loyalty in commercial banks in Kenya. There are various factors that may have a direct bearing on the study but were not the focus of this study. It is therefore suggested that further studies be conducted to establish the effects of market liberalization on relationship marketing. Further it is suggested that further study be conducted to find out the relationship between modern technology and relationship marketing in commercial banks in Kenya.

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## **APPENDIX 1**

### **Letter of Introduction**

Sylvia Nyatichi Momanyi

University of Nairobi, School of Business

P.O Box 30197 - 00100

Nairobi.

Mobile Number; 0722 997690

Dear Respondent,

#### **RE: Collection of Survey Data**

I am a post graduate student at University of Nairobi, School of business pursuing a Master's degree in Msc. Marketing – Brand and Sales Management. Part of this course entails undertaking a research study in order to fulfil the requirements of the degree programme

My research topic is “**RELATIONSHIP MARKETING AND CUSTOMER LOYALTY IN COMMERCIAL BANKS IN KENYAN**” This is to kindly request you to assist me collect the data by filling out the accompanying questionnaire.

The information you provide will be used exclusively for academic purposes and will be treated with total confidentiality. This will not take more than ten minutes of your time.

Your co-operation will be highly appreciated

**Sylvia Momanyi**

**D65/61590/2013**

## APPENDIX 2

### Research Questionnaire

#### Instructions

This questionnaire is designed to provide general information about **Relationship Marketing and Customer Loyalty in Commercial Banks in Kenya**. Your department has been selected for this study. Be assured that your answers are **confidential**. Please answer all the questions in the questionnaire.

#### SECTION A; Background Information

Please select the correct option (Tick as applicable)

1. What is the name of the current bank you are working for?

\_\_\_\_\_

2. What is ownership structure of the bank?

Locally owned  Foreign owned

3. How long has the bank been operating in Kenya?

Less than 10 year  10-25 years

26-50 years  More than 50 years

4. What is the current client base for the bank?

Less than 1 Million  1-5 Million

6 - 10 Million  More than 10 Million

**Section B; Relationship marketing strategies in Commercial Banks**

1. Does your bank have a mission statement?

Yes  No

2. Which of the following are captured in the banks mission statement

Profitability  Family ties

Shareholder statistics  Social concern

Customer satisfaction  Service quality

3. The following statements relate to relationship marketing in commercial banks.

In your fair view, kindly rate them on the given scale with the reference to your bank.

Please tick the correct answer in each section:

1. Strongly Disagree 2. Moderately disagree 3. Not sure. 4. Agree 5.Strongly agree

	1	2	3	4	5
<b>Retaining and growing Relationships with existing clients</b>					
The bank has a keen interest on client service and customer satisfaction					
The bank encourages cross marketing and cross selling of bank products to clients					
The bank has adopted an open door policy to its customers					
The banking hall is comfortable and relaxing for clients					
<b>Attracting New clients and Developing new business</b>					
The bank works on introducing new products or upgrade its current products to suit the market					
Networking is one of the means that the bank uses to target new clients and develop new business for the bank					
The bank encourages targeted business development					

The bank engages in marketing research in order to keep up with market trends and have consumer insight					
<b>Increase Name recognition and awareness</b>					
The bank uses marketing communication tools e.g. advertising, sales promotions, trade shows etc. to create of product awareness					
The bank recognizes the value of brand and identity development for the purpose of awareness of the bank					
The bank uses public relations and media relations as a means of reaching out to its publics					
The bank engages community involvement and development as a way to reach out to its clients					
<b>Effective Communication</b>					
The bank has well laid out procedures for handling to customer complaints e.g. a call center					
The bank has a comprehensive marketing data base and information management system for data collection which enables collection of customers bio data					
The bank holds events for their long standing customers' e.g. golf tournaments, lunches, dinners with the senior team from the bank in order to interact with the customers					
The bank has a website where clients can get comprehensive information on the bank and its products					



**Section C; Customer Loyalty in Commercial Banks**

1. The following statements relate to customer loyalty in commercial banks. In your fair view, kindly rate them on the given scale with the reference to your bank clients. Please indicate the extent to which you agree with the

1. Strongly Disagree 2. Moderately disagree 3. Not sure. 4. Agree 5.Strongly agree

	1	2	3	4	5
Loyal customers give positive word of mouth testimonies to others about this bank					
Loyal customers do not intend to leave the bank in the future					
As compared to other banks, customers are loyal with this bank					
Customers of the bank are quick to take and use other products and services of the bank					
Loyal customers find it difficult to switch to other banks because of what they get from this bank					
The bank's achievement thrives on the solid relationship it has with its customer					

**Section D; Relationship Marketing and Customer Loyalty in Commercial Banks**

1. How is the service quality of your bank unique from that of other banks?

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2. How would you classify the relationship between your bank and bank clients?

- a) One- time/ transactional based
- b) On-going relationship
- c) No relationship.

Others, please specify \_\_\_\_\_

3. Do you think a client's relations with your bank lead to loyalty to the bank?

- a) I do not think so
- b) I think so
- c) Not sure about this

4. Has the adoption of Relationship marketing improved customer retention and customer loyalty in your bank?

Yes

No

Describe Briefly \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

***Thank you for your time and cooperation.***

### **APPENDIX 3**

#### **List of Licensed Commercial banks in Kenya**

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