STRATEGIC RESPONSES ADOPTED BY COMMERCIAL BANKS IN KENYA TO ENHANCE CUSTOMER RETENTION

By

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DECLARATION

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

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This research project has been submitted for examination with my approval as the University supervisor.

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DEDICATION

I wish to dedicate this thesis to my family who gave me the moral support and limitless encouragement through the entire thesis writing course.

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First I would like to thank the almighty God, the maker, and the provider of knowledge, for enabling me to complete my studies.

To the University of Nairobi fraternity for availing to me an opportunity to pursue a Master of Business Administration degree. I am thankful to all the lecturers for their support, time and invaluable contribution especially my Supervisor, Prof. Justus Munyoki

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ABSTRACT

Strategic responses can be seen as the matching of the activities of an organization to the environment in which it operates. A strategic response affects the long term direction of the organization and requires large amounts of resources. Customer retention is an important aspect of any organization because of its continued effect on the financial performance of organizations. The study sought to determine strategic responses adopted by commercial banks in Kenya to enhance customer retention. To achieve this, the study was guided by the following objectives, first to determine the strategies adopted by commercial banks to enhance customer retention in Kenya and secondly to assess the effectiveness of the strategies adopted in enhancing customer retention. The study used cross-sectional survey design to enhance a systematic description that was accurate, valid and reliable as possible regarding the strategic responses adopted to enhance customer retention by commercial banks in Kenya. The population of the study was 44 which comprised of 43 commercial bank and one Mortgage Company. The study used both primary and secondary data; primary data was collected using a questionnaire. Secondary data was collected from published magazines an annual reports from both the banks and the regulator-CBK. The data was analyzed using descriptive statistics. The study conducted multiple regression analysis and correlation analysis to establish the extent to which the strategies adopted influence customer retention among commercial banks in Kenya. The study established that banks had adopted strategic responses to enhance customer retention, some of the strategies adopted were; relationship management, technology adoption, service quality, service recovery and product differentiation. Technology adoption had improved task completion rate among staff. Relationship management strategy had affected customer retention creating a platform to manage interactions; the interaction system with customers had improved customer satisfaction levels. The study recommends that commercial banks should adopt new information technologies which would meet the customer needs and improve efficiency in the banking industry in Kenya and that commercial banks should put up mechanisms to solve customer dissatisfaction issues, customer feedback, customer complaints and gets back to the client affected by poor service.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Organizations are influenced by factors of change, if the environment changes, then they respond accordingly (Thompson, Strickland & Gramble, 2008). These changes evoke a more strategic approach in response by acting proactively or adapting to the environment while at the same time ensuring sustainability of services rendered and products offered. Strategic responses can be seen as the matching of the activities of an organization to the environment in which it operates. A strategic response affects the long term direction of the organization and requires large amounts of resources. It is aimed at achieving advantage for the organization and as such it is concerned with the scope of the entire organizational activities (Pearce, Robinson & Mital, 2008). Organizations have to respond to changes in the external environment because they are environment-dependant and environment-serving. A clear understanding of these issues is needed for appropriate measures to be applied.

Customer retention is an important aspect of any organization because of its continued effect on the financial performance of organizations. Czepiel and Reddy (1993) use the concepts of relationship strength and relative perceived performance as mediating variables as they attempted to predict future usage of bank services using past usage and knowledge of the business. Organizations use different strategies to retain their customers and ensure continued business relationships. These could be strategies that "lock" the customer in by penalizing their exit from a relationship, and strategies that reward a customer for remaining in a relationship (Bruhn, 2003). Positive strategies reward customers while negative strategies penalize their exit. Organizations use a mixture of positive and negative strategies in retaining customers.

The level of competition in the banking industry has gone up following the elevation of three Microfinance Deposit Taking institutions into full fledged commercial banks. In addition, mobile banking have offered customers banking services where customers can save their deposits with them and borrow loan facilities (FSD, 2011). All banks are struggling to grow into another's market share through offering better bargains for the target customers (Mutua, 2012). These activities have included cheaper credit, no charge accounts, purchase of existing long term loans among other financial services. This has made it difficult for highly vulnerable customers to keep loyalty to one financial institution. In turn, the level of customer retention among commercial banks has become of great importance.

1.1.1 Concept of Strategy

Strategy is a multi-dimensional concept and various authors have defined strategy it in different ways. Chandler (1998) defined strategy as the determination of the basic long-term goals, the objectives of an enterprise, the adoption of courses of action and the allocation of resources necessary for carrying out these goals. Pearce and Robinson (2001) defined corporate strategy as the pattern of major objectives, purposes or goals and essential policies or plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be. Ralph (2010) depicted strategy as the match between an organization's resources and skills and the environmental opportunities as well as the risks it faces and the purposes it wishes to accomplish. The purpose of strategy is to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment (Pearce and Robinson, 2001). Ansoff and McDonnell (1990) viewed strategy in terms of market and product choices. According to their views, strategy is the "common thread" among an organization's activities and the market.

Aosa (1992) argued that strategy is creating a fit between the external characteristics and the internal conditions of an organization to solve a strategic problem. He defined a strategic problem as a mismatch between internal characteristics of an organization and its external environment. The match is achieved by developing an organization's core capabilities related to the external environment well enough to allow for exploitation of opportunities in the external environment and minimization of threats. Ansoff and McDonnell (1990) defined strategy basically as a set of decision-making rules for guidance of organizational behavior. They further added that there are four distinct types of such rules. The first is yardsticks by which present and future performance of the firm is measured. The quality of yardsticks is called objectives and the desired quantity is goals. The second type is rules for developing the firm's relationship with its external environment which are called product-market or business strategy. The third type is rules for establishing internal relations and processes within the organization which are referred to as the organizational concept. Lastly, are the rules by which the firm conducts its day-to-day business which are called the operating policies.

1.1.2 Response Strategies

Porter (1998) defines strategic response as a reaction to what is happening in the economic environment of organizations. He views operational responses as part of a planning process that coordinates operational goals with those of the larger organization in mind. The main reasons why markets change rapidly are that customers develop new needs and wants, new competitors enter a market, new technologies developing meaning that new products can be made, a world or countrywide event happening, for example war, and government introducing new legislation e.g. increases in minimum wage. Strategy scholars have found that operating in a global industry context is an important element in determining the organizational environmental fit (Hambrick and Lei, 1985). Strategic responses ensure the survival of organizations at large and at the same time enhance relevance in the environment in which they serve. A response strategy is the search for a favorable competitive positioning in the industry in order to beat competition and remain relevant in the market. It aims at establishing a profitable and sustainable position against the forces that determine industry competition. According to Pearce and Robinson (2005) it is through strategic responses that a firm is able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment.

There are two levels of strategic responses; corporate responses and business response. According to Johnson and Scholes (2000) the corporate level strategy deals with the overall scope and purpose of the organization and ensures that stakeholders' expectations are met. It enables the business to decide which business line to concentrate through diversification integration, divestiture and portfolio management. The business level strategy determines and defines how the organization competes in its market and how long-range objectives would be achieved. This can either be through existing or new products and markets. It involves fitting new strategies to changing business environments or stretching and exploiting the competences of an organization. Operational response is aimed at ensuring that the organization activities are being performed in the best way possible. It focuses on excellence in whatever the organization does. Its purpose is to ensure that the organization is efficient.

1.1.3 Customer Retention

Customer retention is the maintenance of continuous trading relationships with customers in the long term (Buttle, 2004). Customer retention is the mirror image of customer defection or mix. High retention is the counterpart to low defection. Customer retention is the number of customers doing business with a firm at the end of a financial year, expressed as percentage of those who were active customers at the beginning of the year. Retaining customers is good for a firm's economic health as it can have a direct influence upon profitability. Reichheld and Kenny (1990) argue that a five- point improvement in customer retention can lead to an increase in profits from 25% to 80%.

Business-to-business transactions involve trust, investment, social bonds and structural bonds that hold the parties together in a relationship. The overall satisfaction with the relationship may not be high but so long as the product performance satisfaction is high the customer may be retained. The goal of overall satisfaction is still important but in many business-to-business markets the relationship between the parties is more complex than just a buying and selling transaction hence the level of retention may not be directly related to the level of customer satisfaction. Carroll and Rose (1993) take an economic view of customer retention noting that all customers do not generate value and suggest that financial institutions should focus retention strategies on the value producing segment.

1.1.4 The Banking Industry in Kenya

The Kenyan financial sector is generally considered to be more of bank based than market based since capital market is largely underdeveloped and narrow. Bank assets as a percentage of total assets of financial sector are about 57 percent. The vital role played by commercial banks in Kenya in financing economic development brings to the fore the need to study the funding structure of commercial banks. The banking environment in Kenya has, for the past decade, undergone many regulatory and financial reforms. These reforms have brought about many structural changes in the sector and have also encouraged foreign banks to enter and expand their operations in the country (Kamau, 2009). Kenya's financial sector is largely bank-based as the capital market is still considered narrow and shallow (Ngugi et al, 2006). Banks dominate the financial sector in Kenya and as such the process of financial intermediation in the country depends heavily on commercial banks (Kamau, 2009). In fact, Oloo (2009) describes the banking sector in Kenya as the bond that holds the country's economy together. Sectors such as the agricultural and manufacturing virtually depend on the banking sector for their very survival and growth. The performance of the banking industry in the Kenya has improved tremendously over the last ten years, as only two banks have been put under CBK statutory management during this period compared to 37 bank-failures between 1986 and 1998 (Mwega, 2009).

The banking sector in Kenya is regulated by the Central Bank of Kenya (CBK). Commercial banks are licensed and regulated under the Banking Act cap 488; deposits taking micro finance institutions are regulated under Micro Finance Act and the Forex Bureaus under the Central Bank of Kenya Act cap 491. For the quarter ended June 30, 2012, the sector comprised 43 commercial banks, 1 mortgage finance company, and 6 deposit taking microfinance institutions, 5 representative offices of foreign banks, 115 foreign exchange bureaus and 2 credit reference bureaus. Out of the 44 institutions, 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise 3 banks with significant shareholding by the Government and State Corporations, 27 commercial banks and 1 mortgage finance institution (CBK, 2014).

Commercial Banks are further classified into three different classes depending on the market share by net assets, advances, customer deposits and pre-tax profits by Central Bank of Kenya. Large banks have asset size of over 15 billion shillings, medium more than 5 billion shillings and small with asset size of less than 5 billion shillings. Six banks are classified as large, fifteen as medium and twenty three as small (CBK, 2011). Only nine commercial banks are listed in the Nairobi Stock Exchange (Barclays Bank, CFC Stanbic Holdings, Diamond Trust Bank, Equity Bank, Kenya Commercial Bank, National Bank of Kenya, NIC Bank, Standard Chartered Bank and The Co-operative Bank of Kenya). The Kenyan Banking Sector continued on a growth trajectory with the size of assets standing at Ksh. 2.2 trillion, loans & advances worth Ksh. 1.3 trillion, while the deposit base was Ksh. 1.7 trillion and profit before tax of Ksh. 53.2 billion as at 30th June 2012. During the same period, the number of bank customer deposit and loan accounts stood at 14,893,628 and 2,051,658 respectively.

1.1 Research Problem

In a given business environment an appropriate and competent strategic capability is a key basis for such an effective strategic response (Ansoff, 1979). Today's organizations engaging in businesses have to contend with the dynamics of a changing competitive environment because of increased globalization and internationalization effects. Competition is one of the environmental influences to a business which increases the aggressiveness with which competitors seek to increase their market share. It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to perceived and actual changes in the competitive environment. Strategic decisions are ones that are aimed at differentiating an organization from its competitors in a way that is sustainable in the future. A strategy by itself is aimed at directing the operations of an organization from one point to a desired future state. However, in turbulent times, organizations have to formulate strategies in response to the turbulence otherwise they may go into extinction.

The banking sector has become very volatile following increased political anxieties, competition from new entrants, social reforms, technological advancement and globalization (KBA, 2012). The level of competition in the banking industry has gone up following the elevation of three microfinance Deposit Taking institutions into full-fledged commercial banks (FSD, 2011). In addition, more powerful Pan African Commercial banks have entered the Kenyan banking market making it very competitive. Following this increased competition, banks have developed several strategies in response including activities such as cheaper credit, no charge accounts, purchase of existing long term loans among other financial services.

A number of studies have been conducted on the response strategies both in commercial banks and other industries. For instance, Mwangi (2009) examined strategic responses by Chase Bank Kenya Limited to environmental changes in the banking sector. Study findings show that Chase Bank recognizes the fact that it is working in a dynamic environment. It also realizes that for it to sustain good performance, it has to continually make changes so as to adapt to the environment. However, this study only concentrated on one bank yet all banks in Kenya are faced with same challenge of customer retention. Ndunge (2012) examined response strategies to challenges of competition by horticultural export firms in Kenya. The findings indicated that turn around strategies- an all-round strategy dealing with competition, product diversification, new market penetration, e-marketing, of the company's products, investing in packaging and product differentiation, target market, out-sourcing of services, differentiating strategies, refocusing the business and enlarged branch network worldwide. Ndunge's study concentrated on horticultural export firms which have a different context from that enjoyed by commercial banks.

On the other hand, Mwanga (2012) studied effects of automated teller machines on customer retention in commercial banks in Meru town, Kenya. The study findings show that the number of ATMs likewise influenced customer retention. Customers required that ATMs should be enough to meet their day to day requirements. This study only considered one source changes in the operating environment and did not evaluate the response strategies and their effectiveness for the whole banking industry. Finally, Njiru (2013) examined strategic responses to changes in the external environment by universities in Kenya. This study focused on universities which have a different operating environment from that of commercial banks. From these arguments above, it can be noted that the existing studies have not covered the entire banking industry while others have covered other contexts which have different operating environment dynamics from those of commercial banks. This study therefore seeks to fill this gap by seeking to determine the response strategies adopted to enhance customer retention by commercial banks in Kenya. The study was guided by the following study question: What response strategies have been adopted to enhance customer retention by commercial banks in Kenya?

1.1 Research Objectives

The study was guided by the following research objectives:

i. To determine the strategies adopted by commercial banks to enhance customer retention in Kenya
ii. To assess the effectiveness of the strategies adopted in enhancing customer retention

1.1 Value of the Study

The findings of this study would be valuable to different stakeholders including: managers among commercial banks, government of Kenya for policy formulation and future researchers and academicians. For the managers in the banking industry, the findings of this study would be of value as it explains the different strategies adopted by commercial banks to improve customer retention and the extent to which these strategies have been effective. This would help bank managers in their duties of formulating and implementing strategies in future to ensure high customer retention rate among their banks.

The study would also be valuable to the government of Kenya especially the Central Bank of Kenya which is the regulating body for all commercial banks in Kenya. Through the findings of this study, it was hoped that the Central Bank would find relevant information that inform its future policy framework formulation and implementation especially on matters concerning health competition in the financial sector in Kenya.

It was also hoped that the findings of this study would be valuable to future researchers and academicians as it suggest areas for further research besides acting as a source of reference. The study as a whole would be used by future scholars in the area of strategic management and customer retention hence improve the level of knowledge in these areas.

1.5 Chapter Summary

This chapter provided background information of the study relating to concept of strategies, response strategies, customer retention and the banking industry which is the study context from global, regional and local perspectives. It highlighted the research problem clearly bringing out the research gap to be filled, research objectives and the value of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature on the subject under study presented by various researchers. The materials are drawn from several sources which are closely related to the theme and the objectives of the study. The chapter first presents the theoretical framework on which the study was founded and then the concept of response strategies and their effectiveness.

2.2 Theoretical Foundation

This study was founded on two theories in explaining the strategic responses adopted to enhance customer retention by commercial banks in Kenya. Specifically, the study was be founded on the Institutional Theory and Resource dependence theory. The two theoretical perspectives are relevant to this research as they assume that organizations as open systems become interdependent with those elements of the environment which they transact (Pfeffer, 1982). Organizations work within such interdependencies to reduce uncertainty and ensure survival (DiMaggio, 1988)

2.2.1 Institutional Theory

Institutional theorists assert that the institutional environment can strongly influence the development of formal structures in an organization, often more profoundly than market pressures (Pfeffer, 1982). Innovative structures that improve technical efficiency in early adopting organizations are legitimized in the environment. Ultimately, these innovations reach a level of legitimization where failure to adopt them is seen as "irrational and negligent" or they become legal mandates. At this point new and existing organizations would adopt the structural form even if the form doesn't improve efficiency (DiMaggio, 1988).

Meyer and Rowan (1991), on the other hand, argue that often these "institutional myths" are merely accepted ceremoniously in order for the organization to gain or maintain legitimacy in the institutional environment. Organizations adopt the "vocabularies of structure" prevalent in their environment such as specific job titles, procedures, and organizational roles. The adoption and prominent display of these institutionally acceptable "trappings of legitimacy" help preserve an aura of organizational action based on "good faith". Legitimacy in the institutional environment helps ensure organizational survival. Rowan, further examined the growth of three administrative services in California public schools (school health, psychology, and curriculum) from the standpoint of institutional theory. He found that when there is a high level of consensus and cooperation within the institutional environment, diffusion of innovative structures is steady and long-lasting. However, when the institutional environment is contentious and unfocused, adoption of innovative structures is slow and tentative (Campbell, 2007).

2.2.2 Resource Dependency Theory

This theory studies how an organization's behavior is affected by external resources (Pfeffer and Salancik, 2003). It also studies how organizations reduce environments interdependence and uncertainty. It explains how the external environment impacts optimal divisional structure of an organization, recruitment of board members and employees, production strategies and external organizations links (Hillman, Withers, and Collins, 2009).

The theory, further assumes that organizations are dependent on resources for their survival and these resources which are scare are available from the environment. The environment also contains other organization and who also need this resources. More often than not, the resources needed by one organization are in the hands of other organization. Resources then became basis of power as organizations to have control over the resource so that their dependency on others reduces or others become more dependent on them. An organization success is on maximizing its power. In other words, the resource dependency theory states how organizations seek to manage their environment and shows importance of exchange and power relations in and around the organization (Sherer and Lee, 2002).

2.3 Customer Retention Strategies

Customer retention is an important element of any banking strategy in today's increasingly competitive environment (Boohene, Agyapong & Gonu, 2013). Banks often attempt to improve service quality, perceived value, satisfaction and to increase loyalty through innovations in products and services (Meidan, 2003) thus gaining competitive advantage over its competitors. It is however argued that a more viable approach for banks is to focus on less tangible and less easy-to- imitate determinants of customer retention. According to Jacobsen (2000) customer satisfaction, service quality, product differentiation and technology adoption are among the qualities that promote customer retention in the banking industry. This section covers five customer retention strategies including: customer relationship management, technology adoption, service quality, service recovery and product differentiation which are discussed below:

2.3.1 Customer Relationship Management

Customer relationship management (CRM) is a concept for managing a company's interactions with customers, clients, and sales prospects. It involves using technology to organize, automate, and synchronize business processes. The objectives of CRM are to enhance profitability, income, and customer satisfaction. To attain CRM, many organizations use set of tools, technologies, and procedures to support the relationship with the customer to enhance sales. Therefore, CRM is an issue of strategic business and process rather than a technical one (Dowling, 2002).Customer relationship management (CRM) is a combination of organizational strategy, information systems, and technology that is focused on providing better customer service (Chen & Popovich, 2003).

The main objectives of CRM are to acquire new customers, retain the current customers, and nurture a favorable relationship with the existing customers. CRM should be considered as a corporate strategy because it is a fundamental approach to doing successful business as it helps managers understand, anticipate and respond to the needs of enterprise current and potential customers in order to grow their relationship value. The goal of CRM is to be customer-focused and customer-driven, running all aspects of the business to satisfy the customers by addressing their requirements for products and by providing high-quality, responsive customer service.

According to Duran (2001) there are different reasons for the adoption of CRM among organizations. He asserts that marketing has become more costly, customer share has gained importance, not market share, concepts of customer satisfaction and customer loyalty have become more important, customer value and one on one marketing has gained importance, and finally intensive competition and developments in communication technologies.

Peppers (2001) assert Customer relationship management is grounded on the idea of establishing a learning relationship with each customer. As a result of the learning relationship with each customer, the enterprise may learn the expectations and needs of its customers more easily and meet these expectations just in time, also acquiring an advantage of competition. In a learning relationship, the customer tells the enterprise his/her needs and expectations, and the enterprise may be able to meet these needs and expectations through its products and services. The enterprise may be offering its customers a similar kind of consumption and interaction with its rivals. Since the enterprise would have better information about its customers through the learning relationship it has developed, it would differentiate the enterprise from its rivals (Peppers, 2001).

2.3.2 Technology Adoption

Technologies allow organizations to develop a better relationship with customers by providing a wider view of customer behavior (Thompson, 2006). Thus, organizations are required to integrate IT to improve the capabilities of understanding customer behavior, develop predictive models, build effective communications with customers and respond to those customers in real time and with accurate information (Chen & Popovich, 2003).

With advanced technologies, tasks are done faster and more accurately thus customers get better service. The onset, growth and availability of technologies in the financial services market in Kenya has allowed for one branch banking within even the region that is it allows customers to access their accounts in all the countries in which the banks are present (Chen & Popovich, 2003). Janet (2011) argues that the increased technological capabilities of banks in the country has enabled them to set up ATMs and agents in different regions in the country making it easier for customers to access the services offered by the banks even in the most remote of locations. Customers would ultimately prefer banks where they can access the products and services offered with ease and convenience (Janet, 2011).

According to Ogongo (2014) perhaps the greatest growth in the financial service provider industry has been the mobile money transfers. Mobile Money service providers in partnerships with local banks in the country have made it easier for customers to transfer, receive and operate their accounts from their mobile phones. According to Cannon and Cannon (2005) one of the major causes of dissatisfaction among customers is congestion in the office place. Ogongo (2011) points out that the partnership between banks and mobile money service providers has eased the congestion that was often faced in the banking hall since one does not have to be physically present at the bank to transact.

Improved technological infrastructure among the banking systems has made it easier for transfers between banks to take a lesser time. According to the KBA (2011) report it now takes a day for completion of the wire transfers and cheque clearance. This has improved business and convenience to banks customers especially among businesses. The essence of the information technology revolution and, in particular, the World Wide Web is the opportunity to build better relationships with customers than has been previously impossible in the offline world (Cannon and Cannon, 2005). By combining the abilities to respond directly to customer requests and to provide the customer with a highly interactive, customized experience, companies have a greater ability today to establish, nurture, and sustain long-term customer relationships than ever before. The ultimate goal is to transform these relationships into greater profitability by increasing repeat purchase rates and reducing customer acquisition costs through promoting customer loyalty and enhancing high retention rates. .

2.3.3 Service Quality

Service quality is an important aspect of survival in today's globally competitive business field. According to Mendzela (2009) service quality is the foundation of a comparison between customers' expectations and the perceived performance of service providers. Customers' expectations are defined as what customers' desire based on their antecedent experiences with the firm. Customer expectations compared with actual service performance results in the assessment of quality that customers obtain from particular service providers (Mendzela, 2009). After conducting a study to establish the relationship between customer satisfaction and service quality, Janet (2011) concluded that a significant relationship between the two existed. All the dimensions of service quality were identified as the key factors in influencing customer satisfaction. Customer satisfaction is an important aspect of customer retention. Janet (2011) argued that a satisfied customer would endeavor to make a repeat purchase and be loyal to a brand. The outcome of the study suggested that to improve customer satisfaction, organizations need to improve the dimensions of service quality. The dimensions of service quality focus on tangibles, reliability, responsiveness, assurance, and empathy outstanding service quality can lead to favorable behavioral intentions, which may result in improved customer retention (Janet, 2011).

According to Janet (2011) providing the service as promised, at the promised time and doing it right the first time makes the service provider reliable to the customers. Financial banks being service providers must handle customer problems in a dependable manner and keeping customers informed. Mendzela (2009) highlighted that assurance is a key determinant of service quality. He argued that customers must have confidence in the service provider that they would deliver in the transactions involved. He further suggested that one of the ways in which organizations can assure their customers is by having employees responding to their queries. Tangibility involves the use of modern equipment, visually appealing facilities and materials related to the service, employees with professional appearance, and convenient operating hours. In order to serve customers faster and better the organization needs to have modern equipments and competent employees (Zeithaml et al, 2009). Other dimensions of service quality that Zeithaml et al, (2009) were responsiveness and empathy.

2.3.4 Service Recovery

The service recovery means the ability of the service provider to solve the problem such as the customer dissatisfaction and the service failure. The active effort of the company to solve the problem helps customer have credit on the service provider. And appropriate effort for the service recovery can protect customers from switching the service provider

(Colgate & Lang, 2001). The service recovery at the service encounter is a foundation to develop the customer relationship into a long term friendship. Therefore the service recovery can be a component for the switching barrier.

There are indications that a well-executed complaints handling process is of strategic relevance because it can have a positive effect on customer retention (Stauss and Seidel, 2004). Indeed, customers who complain and are well recovered can be more satisfied and less likely to switch than customers who had no cause for complaint at all (Nyer, 2000). Complainants who enjoy high standards of complaints handling experience the service quality attributes of empathy and responsiveness, which are not routinely on display when services are delivered, or products function, right first time (Buttle, 2004). Despite the strategic relevance of complaints handling, it is a process which it appears to be accorded little importance in many companies (Stauss and Schoeler, 2004).

2.3.5 Product Differentiation

Product differentiation is key in achieving competitive advantage and promoting customer retention. Competitive strategy consists of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position (Thompson and Strickland, 2002). Differentiation involves creating a product that is perceived as unique. Product differentiation is achieved by offering a valued variation of the physical product. The ability to differentiate a product varies greatly along a continuum depending on the specific product. Armstrong and Kotler (1999) indicated that that differentiation in banks can occur by manipulating many characteristics, including features, performance, style, design consistency, durability, reliability, or reparability and that differentiation allows a commercial banks to target specific populations in the market.

Porter (1985) suggests the following rationale behind differentiation: "a firm differentiates itself from its competitors, if it can be unique at something that is valuable to buyers". He continues that the sources for differentiation are not well understood. They can stem from anywhere in the value chain. Differentiation is a much broader concept which encompasses more than any one factor such as quality. Common examples of differentiation for services include speed, performance, quality, responsiveness, availability, ease or integration (Porter, 1980).

According to Kotler, Philip and Kevin (2006), differentiation looks to make a product more attractive by contrasting its unique qualities with other competing products. Successful usage of bank credits creates a competitive advantage for the bank enhancing bank performance as customers view these products as unique or superior. Product differentiation can be achieved in many ways. It may be as simple as packaging the goods in a creative way, or as elaborate as incorporating new functional features. Sometimes differentiation does not involve changing the product at all, but creating a new advertising campaign or other sales promotions instead (Grant, 2001). This may be through superior product design, technology, customer service, dealer network or other dimensions (Porter, 1985).

2.4 Empirical Studies

Several studies have reviewed response strategies and customer retention. For instance, Boohene, Agyapong and Gonu (2013) examined factors influencing the retention of customers of Ghana commercial bank within the Agona Swedru Municipality. The results revealed that on the whole, switching barrier emerged as the most significant factor influencing customer retention followed by customer commitment and customer trust. In another study, Khan (2013) studied determinants of customer retention in hotel industry and established that that hotel Grand customers retained on the basis of services they offered. While in Park Inn hotel retention factors included: food quality. These findings show that different strategies can be used by different organizations within the same industry to retain customers.

Molapo and Mukwada (2011) examined the impact of customer retention strategies in the South African Cellular Industry using the Case of the Eastern Free State. The study findings show that though there are many customer retention strategies that are employed in the South African cellular industry, the most effective are those related to quality of service, affordability of service and provision of customer support services. Further, Singh and Khan (2012) examined an approach to increase customer retention and loyalty in B2C World. The findings show that although there are many strategies for each of them, understanding what considerations need to be done while deciding the best strategy for the business is important because different business has different scope and also their limitations too.

2.5 Summary and Gaps

This chapter has reviewed the literature that informs the formation of study variables. In particular, it reviewed the theoretical foundation where the institutional theory and resource based view theory were reviewed. The study then presented customer retention strategies and empirical studies. Of the studies reviewed (Mwangi, 2009; Ndunge, 2012; Mwanga, 2012; Njiru, 2013; Boohene, Agyapong and Gonu, 2013; Khan, 2013; Molapo and Mukwada, 2011; and Singh & Khan, 2012), none of these studies has concentrated on response strategies and customer retention in the Kenyan Banking sector. This study would therefore be the pioneer in building knowledge on the concept of retention strategies among commercial banks.

2.6 Chapter Summary

This chapter has reviewed the literature that informs the formation of study variables. In particular, it reviewed the theoretical perspective where the Institutional Theory and the Resource Dependency Theory were reviewed. The study then presented customer retention strategies including: customer relationship management; technology adoption; service quality; service recovery; and product differentiation as urged out by other scholars and researchers. It also presented the summary and research gaps to be filled by the study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methods that were used in gathering data pertinent in answering the research questions. The chapter comprises the following sub-topics; research design, target population, data collection and data analysis procedures.

3.2 Research Design

The study used cross-sectional survey design. Mugenda and Mugenda (2003) notes that a survey attempts to collect data from members of a population and describes phenomenon by asking individuals about their perceptions, attitudes, behaviour or values. Cross-sectional research design has been chosen because it appeals for generalization within a particular parameter. The data obtained was standardized to allow easy comparison. This design was meant to enhance a systematic description that was accurate, valid and reliable as possible regarding the strategic responses adopted to enhance customer retention by commercial banks in Kenya.

3.3 Population of the Study

The target population of the study was all commercial banks operating in Kenya as at December 2014. The population of the study was 44 commercial bank including one mortgage company. However, since all banks have an office in Nairobi which makes them easily accessible, the study included all banks in the study hence a census.

3.4 Data Collection

The study used both primary and secondary data. Primary data was collected using a questionnaire. The questionnaire was administered to each member of the target population. The questionnaire has both open and close-ended questions. The close-ended questions are meant to provide more structured responses to facilitate tangible recommendations while open-ended questions are meant to provide additional information that may not have been captured in the close-ended questions. The questionnaire was carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity and accuracy of data to be collected for the study. Secondary data was also be collected for this study from published magazines and annual reports from both the banks and the regulator-CBK. The secondary data included internal periodic publications including magazines and financial statements. The questionnaire were administered using a drop and pick later method. . In particular, the study targeted one respondent from each bank since it aims to collect views on the Bank as far as strategic responses adopted to enhance customer retention is concerned. The exact officer to be approached was the relationship manager since they participated in strategy formulation in the Bank in as far as customer retention in concerned.

3.5 Reliability and Validity Test

In order to ascertain the ability of the questionnaire in collecting the intended data, the study conducted a pre-test where the questionnaire were administered to five employees at Kenya Commercial Bank with the aim of correcting any inconsistencies arising from the instruments, which ensured that they measured what was intended (Kumar, 2010).

Validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity which was employed by this study as a measure of the degree to which data collected using the questionnaire represents a specific domain or content of customer retention strategies. Mugenda (2008) contend that the usual procedure in assessing the content validity of a measure is to use a professional or expert in a particular field.

Bowlin (2009) indicates that reliability refers to the consistency of measurement and is frequently assessed using the test-retest reliability method. Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. The survey instruments was subjected to overall reliability analysis by using uniform questions to which the respondents were required to indicate their extent of agreement.

3.6 Data Analysis

The questionnaire collected were inspected for completeness, coded and entered into the analytical system ready for analysis. The study used Statistical Package for Social Sciences (SPSS) to analyze the data. The study used descriptive statistics including frequency, mean and standard deviation to analyze the data. The data was then be presented using frequency tables, figure and charts.

In order to establish the extent to which the strategies adopted influence customer retention among commercial banks in Kenya; the study conducted multiple regression analysis and correlation analysis. The following multiple regression formula was applied:

$$\mathbf{Y} = \beta_0 + \beta_1\mathbf{X}_1 + \beta_2\mathbf{X}_2 + \beta_3\mathbf{X}_3 + \beta_4\mathbf{X}_4 + \beta_5\mathbf{X}_5 + \varepsilon$$

Where **Y** = Customer Retention

$\mathbf{X}_1$ = Customer Relationship Management

$\mathbf{X}_2$ = Technology Adoption

$\mathbf{X}_3$ = Service Quality

$\mathbf{X}_4$ = Service Recovery

$\mathbf{X}_5$ = Product Differentiation

ε = Error Term

β = Coefficients

3.7 Chapter Summary

This chapter presented, explained and justified the different research approaches, techniques and processes the researcher adopted in the course of the study. These included the research design, population of the study, data collection methods, Reliability and Validity Test and data analysis techniques including the multiple regression model.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents an analysis from the findings on the strategic responses adopted by commercial banks in Kenya to enhance customer retention. The study targeted a sample of 44 respondents comprising 43 banks and a mortgage company. Out of the 44 distributed questionnaires, 38 were filled and returned. This translated to a response rate of 86%. This response was considerable and representative of the population. It also conforms to Mugenda and Mugenda's (1999) stipulation that a response rate of 50% is adequate for analysis and reporting.

4.2 Demographic Information

The study sought to find out demographic information of the banks including the number of years the banks have been in operational, the number of employees at the bank and the ownership of the banks. The findings are shown below in Table 4.1:

Table 4.1 Demographic Information

		Frequency	Percentage
Number of years in operation	Less than 10 years	5	13%
	Between 10-20 Years	10	26%
	Between 20-30 Years	6	16%
	Between 30-40 Years	6	16%
	Over 40 years	11	29%
	Total	**38**	**100%**
Number of Employees	Less than 1000	21	55%
	Between 1000-3000	10	26%
	More than 3000	7	18%
	Total	**38**	**100%**
Ownership	Multinational	15	39%
	Indigenous	23	61%
	Total	**38**	**100%**

From the findings on Table 4.1, 29% of the banks were over 40 years in operation in Kenya, 26% were between 10-20 years, 16% were between 20-30 years, 16% were between 30-40 years and the rest 13% were less than 10 years. This was an indication that these banks had operated long enough to provide information that was reliable in guiding this study.

Majority of the banks; 55% had employees less than 1000, 26% had employees between 1000-3000 while the least 18% had employees more than 3000. From the findings, majority of the banks had moderate number of employees that were able to adopt strategies that would help in retention of customers hence it was reliable for the study.

From the findings 61% of the banks are owned by indigenous parties while the rest 39% are owned by a multinational. This was an indication that the banks structures were different and also strategies employed may have been different by the nature of ownership. This made the study more inclusive since views from all the different banks were collected.

4.3 Customer Retention Strategies

The study sought to identify the strategies adopted by commercial banks to enhance customer retention. The strategic responses addressed in this study were customer relationship management, technology adoption, service quality, and service recovery as well as product differentiation.

4.3.1 Customer Relationship Management Strategy

The study sought to find out the extent to which they agreed on the statements on Customer Relationship Management strategy. The findings are shown in Table 4.2 below.

Table 4.2: Customer Relationship Management strategy

	Mean	Stdev
The bank has created a platform to manage interactions with customers and synchronize business processes	4.2368	0.78617
The interaction system with customers has improved customer satisfaction levels	4.0263	0.75290
The interaction system with customers has reduced the number of customer complaints	4.1316	0.96341
The interaction system with customers has enabled the bank to learn the expectations and needs of its customers	4.0000	1.06543
The interaction system with customers has enabled the bank to meet customer expectations in time	4.2105	0.93456
The interaction system with customers has enabled the bank to get real time feedback on its performance	4.1316	1.11915
The interaction system with customers has assisted the bank in identifying areas of new product development and improvement	4.1053	1.10989

As indicated in Table 4.2 above indicate that; the bank had created a platform to manage interactions with customers and synchronize business processes had a mean of 4.2368.The interaction system with customers has improved customer satisfaction levels had a mean of 4.0263. The interaction system with customers has reduced the number of customer complaints had a mean of 4.1316. The interaction system with customers has enabled the bank to attract new customers had a mean of 4.0463. The interaction system with customers has enabled the bank to learn the expectations and needs of its customers had a mean of 4.000. The interaction system with customers has enabled the bank to meet customer expectations in time had a mean of 4.2105. The interaction system with customers has enabled the bank get real time feedback on its performance had a mean of 4.1316 and The interaction system with customers has enabled the bank in identifying areas of new product development and improvement had a mean of 4.1053.

From the findings in Table 4.2 above, the commercial banks to a great extent had adopted the Customer Relationship Management strategy to improve customer satisfaction levels, reduced complaints, meet customers' expectations and identify areas for further development.

4.4.1 Extent to which Customer Relationship Management Strategy has affected customer retention

The study sought to find out the extent to which customer relationship management strategy has affected customer retention. Results are shown on Table 4.3 below.

Table 4.3: Customer Relationship Management effect on customer retention

Extent	Frequency	Percentage
Very Great Extent	16	42%
Great Extent	12	32%
Moderate Extent	6	16%
Little Extent	3	8%
No Extent	1	3%
Total	**38**	**100%**

As indicated on Table 4.3, on the extent to which the CRM strategy has affected customer retention, 42% agree to a very great extent, 32% agree to a great extent, 16% agree to a moderate extent, 8% agree to a little extent and 3% did not agree. This shows that majority of the commercial banks in Kenya were adopting CRM strategy to a great extent so as to retain their customers due to higher competition from the banking industry.

4.5 Technology Adoption

The study sought to find out the extent to which they agreed on how technology adoption has affected customer retention. The findings are shown in Table 4.4 below.

Table 4. 4: Technology Adoption

	Mean	Std. Deviation
The Bank has adopted new technologies on time	3.8158	0.98242
Integration of IT in customer management has helped improve the Bank's capabilities of understanding customer behavior	4.0789	1.07506
Adoption of new technologies have improved task completion rate among staff	3.9211	1.04962
Adoption of new technologies has improved customer convenience when transacting	4.4221	1.02355
Adoption of information technologies has improved the Bank's agency banking management	3.8684	0.93494
Adoption of information technology has increased the modes of service delivery in the Bank	3.9474	1.11373
Adoption of information technology has increased the ability of the bank to collaborate with other service providers i.e. point of sale outlets	4.1053	0.95265
Adoption of information technology has improved the portability of the Bank's services internationally	3.6842	1.35777

Findings on Table 4.4 above indicate that banks had adopted new technologies on time had a mean of 3.8158, Integration of IT in customer management has helped improve the bank's capabilities of understanding customer behavior had a mean of 4.0789. Adoption of new technologies have improved task completion rate among staff had a mean of 3.9211. Adoption of new technologies has improved customer convenience when transacting had a mean of 4.4221. Adoption of information technologies has improved the bank's agency banking management had a mean of 3.8684. Adoption of information technology has increased the modes of service delivery in the Bank had a mean of 3.9474. Adoption of information technology has increased the ability of the bank to collaborate with other service providers i.e. point of sale outlets had a mean of 4.1053 and adoption of information technology has improved the portability of the bank's services internationally had a mean of 3.6842.

As indicated from the findings, adoption of new technologies has improved customer convenience when transacting to a great extent as majority of the commercial banks has adopted technology in their operations. To a moderate extent adoption of information technology has improved the portability of the Bank's services internationally as most of the banks are focusing on local market.

4.5.1 Extent to which Technology Adoption has Affected Customer Retention.

The study sought to find out the extent to which technology adoption affected customer retention. The Findings are shown in table 4.5

Table 4. 5: Extent to which Technology Adoption has Affected Customer Retention

Extent	Frequency	Percentage
Very Great Extent	14	37%
Great Extent	16	42%
Moderate Extent	4	11%
Little Extent	3	8%
No Extent	1	3%
Total	**38**	**100%**

Findings on Table 4.5 on the extent to which technology adoption has affected customer retention, 37% agree to a very great extent, 42% agree to a great extent, 11% agree to a moderate extent, 8% agree to a little extent and 3% do not agree. This shows that majority of the commercial banks had adopted technology to improve their performance thus retaining their customers.

4.6 Service Quality Strategy

The study sought to find out the extent to which they agreed on how Service Quality Strategy has affected customer retention. The findings are shown below in table 4.6

Table 4.6: Service Quality Strategy

	Mean	Std Dev
The bank has used quality service delivery as a strategy to retain customers	4.1579	1.12769
The bank carries out frequent customer satisfaction surveys	4.1316	.90557
The bank tries to match service delivery to service promised in the corporate strategy	4.2105	.90518
The bank builds confidence among customers when delivering services	3.9474	1.11373
The bank tries to act responsively to changing customer preferences	4.0263	1.05233

Results on Table 4.6 indicate that banks had used quality service delivery as a strategy to retain customers had a mean of 4.1579. The bank carries out frequent customer satisfaction surveys had a mean of 4.1316. The bank tries to match service delivery to service promised in the corporate strategy had a mean of 4.2105. The bank builds confidence among customers when delivering services had a mean of 3.9474 and the bank tries to act responsively to changing customer preferences had a mean of 4.0263.

As indicated from the findings, most banks tries to match service delivery to service promised in the corporate strategy to a great extent so as deliver the strategies efficiently to their customers while to a moderate extent the banks builds confidence among customers when delivering services.

4.6.1 Extent to which Service Quality Strategy has Affected Customer Retention

The study sought to find out the extent to which Service Quality Strategy affected customer retention. The Findings are shown below in table 4.7

Table 4. 7: Extent to which has Service Quality Strategy Affected Customer Retention

Extent	Frequency	Percentage
Very Great Extent	12	32%
Great Extent	18	47%

Moderate Extent	5	13%
Little Extent	2	5%
No Extent	1	3%
Total	**38**	**100%**

Findings on Table 4.7 on the extent to which Service Quality Strategy has affected customer retention, 32% agree to a very great extent, 47% agree to a great extent, 13% agree to a moderate extent, 5% agree to a little extent and 3% disagree. This shows that majority of the banks to a great extent were adopting service delivery strategy in order to meet their customers need.

4.7 Service Recovery

The study sought to find out the extent to which they agreed on how Service Recovery has affected customer retention. The Findings are shown in Table 4.8:

Table 4.8: Service Recovery

	Mean	**Std. Dev**
The bank has mechanisms to detect customer dissatisfaction	4.1316	1.25571
The bank has mechanisms to solve customer dissatisfaction issues	4.1579	1.02736
The bank has a mechanism to collect customer feedback on their services rendered by our staff	4.1053	1.13398

The bank has a committee that reviews customer complaints for better solution development	4.0000	1.16248
The bank has gets back to the client affected by poor service	4.2368	.88330

Results on Table 4.10 indicate that banks had mechanisms to detect customer dissatisfaction had a mean of 4.1316. The Bank has mechanisms to solve customer dissatisfaction issues had a mean of 4.1579, The Bank has a mechanism to collect customer feedback on their services rendered by the staff had a mean of 4.1053. The Bank has a committee that reviews customer complaints for better solution development had a mean of 4.0000 and The Bank has gets back to the client affected by poor service 4.2368.

As indicated above, the banks had mechanisms to solve customer dissatisfaction issues had been adopted majorly. This shows that the commercial banks were meet their customer's needs first by looking into their complaints and dissatisfactions.

4.7.1 Extent to which Service Recovery had Affected Customer Retention

The study sought to find out the extent to which Service Quality Strategy affected customer retention. The Findings are shown in Table 4.9.

Table 4.9: Extent to which Service Recovery had Affected Customer Retention

Extent	Frequency	Percentage
Very Great Extent	9	24%
Great Extent	21	55%
Moderate Extent	4	11%
Little Extent	3	8%
No Extent	1	3%
Total	**38**	**100%**

Findings on Table 4.9, on the extent to which Service Recovery had affected customer retention, 24% agree to a very great extent, 55% agree to a great extent, 11% agree to a moderate extent, 8% agree to a little extent and 3% agree to no extent. Majority of the respondents agree to a great extent that service recovery had affected customer retention in their banks.

4.8 Product Differentiation

The study sought to find out the extent to which they agreed on how Product Differentiation had affected customer retention. The findings are shown in table 4.10

Table 4.10: Product Differentiation

	Mean	Std. Deviation
The bank has a well differentiated financial products from other banks	3.8947	1.20336
The bank has a well differentiated market segment from other banks	4.1316	0.93494
The bank has unique financial products for its customers	3.5789	1.22213
Financial product differentiation has allowed the bank to position itself better on the market	3.9474	1.18430
Differentiation has made bank products very unique	4.2632	1.00497

As indicated on Table 4.10, banks had a well differentiated financial products from other banks had a mean of 3.8947. The bank has a well differentiated market segment from other banks had a mean of 4.1316. The bank has unique financial products for its customers had a mean of 3.5789, Financial product differentiation has allowed the bank to position itself better on the market had a mean of 3.9474 and Differentiation has made bank products very unique had a mean of 4.2632.

From the findings, the banks had a well differentiated market segment which distinguished them from other. To a moderate extent the banks has unique financial products for its customers thus meeting different customer needs.

4.8.1 Extent to which Product Differentiation had Affected Customer Retention

The study sought to find out the extent to which Service Quality Strategy affected customer retention. The Findings are shown in Table 4.11.

Table 4.11: Product Differentiation effect on Customer Retention

Extent	Frequency	Percentage
Very Great Extent	15	39%
Great Extent	9	24%
Moderate Extent	7	18%
Little Extent	5	13%
No Extent	2	5%
Total	**38**	**100%**

As indicated on Table 4.11, on the extent to which Product Differentiation has affected customer retention, 39% agree to a very great extent, 24% agree to a great extent, 18% agree to a moderate extent, 13% agree to a little extent and 5% disagree. Majority of the commercial banks had adopted differentiation strategy to a very great extent as a means to remain competitive and retain their customers.

4.3.2 Extent to which Strategies Affected Customer Retention in Banks

The study further sought to find out the extent to which all the strategic responses affected customer retention. The results are shown in Table 4.12:

Table 4.12: Extent to which Strategies Affected Customer Retention in Banks

Extent	Frequency	Percentage
Very Great Extent	8	25%
Great Extent	12	38%

Moderate Extent	6	19%
Little Extent	4	13%
No Extent	2	6%
Total	32	100%

According to the findings on Table 4.12 above, 38% of the banks which had developed strategies had affected customer retention to a great extent, 25% to a very great extent, 19% to a moderate extent, 13% to a little extent while 6% had no extent at all. As indicated in the findings majority of the respondents agree to a great extent that all the strategic responses affected customer retention in their banks.

4.9 Regression Analysis

A regression analysis was conducted to determine how Product Differentiation, Service Recovery, Customer Relationship Management Strategy, Service Quality Strategy and Technology Adoption were related to customer retention by commercial banks in Kenya. The statistical package for social sciences (SPSS) was used to code, enter and compute the measurements of the multiple regressions for the study.

Table 4.13: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.812	0.659	0.606	0.23206

Table 4.13 shows the model fit which establishes how fit the model equation fits the data. The adjusted R^2 was used to establish the predictive power of the study model and it was found to be 0.606 implying that 60.6% of the variations in customer retention was explained by Product Differentiation, Service Recovery, Customer Relationship Management Strategy, Service Quality Strategy and Technology Adoption leaving 39.4%

percent unexplained. Therefore, further studies should be done to establish the other factors (39.4%) affecting customer retention by commercial banks in Kenya.

Table 4.14: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	3.329	5	.666	12.365	0.0001
Residual	1.723	32	.054		
Total	5.053	37			

The probability value of 0.0001 indicates that the regression relationship was highly significant in predicting how Product Differentiation, Service Recovery, Customer Relationship Management Strategy, Service Quality Strategy and Technology Adoption affected customer retention by commercial banks in Kenya.

Table 4.15: Coefficients of Determination

	Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
	B	Std. Error	Beta		
(Constant)	0.542	0.095		5.691	0.000
Customer Relationship Management Strategy	-0.029	0.137	-0.085	-0.214	0.832
Technology Adoption	0.198	0.189	0.550	1.045	0.304
Service Quality Strategy	-0.127	0.163	-0.329	-0.776	0.443
Service Recovery	0.214	0.136	0.551	1.575	0.125
Product Differentiation	0.039	0.097	0.133	0.402	0.690

The established model for the study was:

$Y = 0.542 - 0.085X_1 + 0.550\, X_2 - 0.329X_3 + 0.551X_4 + 0.133X_5$

The regression equation above has established that taking all factors into account (Product Differentiation, Service Recovery, Customer Relationship Management Strategy, Service Quality Strategy and Technology Adoption) constant at zero customer retention by commercial banks would be 0.542. The findings presented also show that Service Recovery, had the greatest on the customer retention (β= 0.551), Technology Adoption (β= 0.550), Product Differentiation (β= 0.133), Customer Relationship (β= -0.085), while Service Quality Strategy (β= -0.329) had the least effect to the customer retention by commercial banks in Kenya. All the variables were significant ($p<0.05$).

4.10 Discussion of Findings

The study established that customer relationship management strategy had affected customer retention to a great extent. These findings are consistent with Boohene et al. (2013) who argues that commercial banks have to invest in customer relationship management so as to attend to individual customer needs for optimal organizational performance. Khan (2013) also argues that by commercial banks implementing customer retention strategies, they would be in a position to created a platform to manage interactions; the interaction system with customers had improved customer satisfaction levels; the interaction system with customers had reduced the number of customer complaints; and the interaction system with customers had enabled the banks learn the expectations and needs of its customers.

The study also established that commercial banks had adopted technology as one of the strategies to improve customer retention. These findings are supported by Singh and Khan (2012) who argues that adoption of technology allows commercial banks to improve operational efficiency hence improved overall organizational performance. From the findings, commercial banks had adopted new technologies on time which helped improve task completion rate among staff, improved the bank's agency banking management, increased the modes of service delivery in the bank and improved the portability of the bank's services.

The study further established that service strategy had affected customer retention. Commercial banks had used quality service delivery as a strategy to retain customers, the bank carries out frequent customer satisfaction surveys, the banks tries too much service delivery to service promised in the corporate strategy and the Banks tries to act responsively to changing customer preferences.

On service recovery the study concludes that service recovery had affected customer retention. Commercial banks had had mechanisms to solve customer dissatisfaction issues, collect customer feedback on their services rendered by their staff, the banks had a committee that reviews customer complaints for better solution development and the banks has gets back to the client affected by poor service. These findings are supporterd by Stauss and Schoeler (2004) who argues that customers who complain and are well recovered can be more satisfied and less likely to switch than customers who had no cause for complaint at all. By attending to customer complains, an organization is able to improve the level of customer satisfaction.

The study further established that product differentiation had affected customer retention in that commercial banks had well differentiated financial products from other banks; well differentiated market segment from other banks. In addition, the banks had unique financial products for its customers and financial product differentiation has allowed the bank to position itself better on the market. Armstrong and Kotler (1999) argues that that differentiation in banks can occur by manipulating many characteristics, including features, performance, style, design consistency, durability, reliability, or reparability and that differentiation allows a commercial banks to target specific populations in the market.

4.11 Chapter Summary

This chapter presented data analysis, findings and discussions as collected from the respondents according to the two study research objectives. The findings are arranged in thematic areas to enable adequate response to the objectives of the study. The area covered included demographic information Customer Retention Strategies including: Customer Relationship Management Strategy; Technology Adoption; Service Quality Strategy; Service Recovery; and Product Differentiation. The chapter also presents the relationship between the dependent and independent variables through a regression analysis after which it presents discussion of findings.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objective of the study.

5.2 Summary of Findings

The study sought to establish the strategic responses adopted by commercial banks in Kenya to enhance customer retention the study deduced that level of service quality in the bank was high. Customer relationship management strategy had affected customer retention levels to a great extent. To a great extent the bank had created a platform to manage interactions; the interaction system with customers had improved customer satisfaction levels; the interaction system with customers had reduced the number of customer complaints; and the interaction system with customers had enabled the bank learn the expectations and needs of its customers.

The study established that technology adoption affected customer retention to a moderate extent. To a moderate extent, the bank had adopted new technologies on time, adoption of new technologies had improved task completion rate among staff, adoption of information technologies had improved the bank's agency banking management, adoption of information technology had increased the modes of service delivery in the bank and adoption of information technology had improved the portability of the bank's services internationally.

On the issue of service quality strategy, the study established that service quality strategy had been adopted to a great extent, it was agreed to a great extent that the bank had used quality service delivery as a strategy to retain customers, The banks carries out frequent customer satisfaction surveys, The banks tries to much service delivery to service promised in the corporate strategy and the banks tries to act responsively to changing customer preferences.

The study established that service recovery had been adopted by commercial banks to a great extent. To a great extent the bank has mechanisms to detect customer dissatisfaction; The Bank had mechanisms to solve customer dissatisfaction issues, The Banks had a mechanism to collect customer feedback on their services rendered by our staff, The Banks had a committee that reviews customer complaints for better solution development and The Banks has gets back to the client affected by poor service.

The study further established that product differentiation had been adopted by the banks to a moderate extent. To a moderate extent the Banks had well differentiated financial products from other banks; the bank has a well differentiated market segment from other banks; The Banks had unique financial products for its customers and financial product differentiation has allowed the Bank to position itself better on the market.

5.3 Conclusion

The study concluded that customer relationship management strategy had affected customer retention. Commercial banks had created a platform to manage interactions; the interaction system with customers had improved customer satisfaction levels; the interaction system with customers had reduced the number of customer complaints; and the interaction system with customers had enabled the banks learn the expectations and needs of its customers.

The study also concluded that technology adoption affected customer retention in that commercial banks had adopted new technologies on time, adoption of new technologies had improved task completion rate among staff, adoption of information technologies had improved the bank's agency banking management, adoption of information technology had increased the modes of service delivery in the bank and adoption of information technology had improved the portability of the bank's services internationally.

On the issue of service quality strategy, the study concluded that service strategy had affected customer retention. Commercial banks had used quality service delivery as a strategy to retain customers, the bank carries out frequent customer satisfaction surveys, the banks tries too much service delivery to service promised in the corporate strategy and the Banks tries to act responsively to changing customer preferences.

On service recovery the study concludes that service recovery had affected customer retention. Commercial banks had had mechanisms to solve customer dissatisfaction issues, the banks had a mechanism to collect customer feedback on their services rendered by their staff, the banks had a committee that reviews customer complaints for better solution development and the banks has gets back to the client affected by poor service.

The study concluded that product differentiation had affected customer retention in that commercial banks had well differentiated financial products from other banks; the bank has a well differentiated market segment from other banks; The banks had unique financial products for its customers and financial product differentiation has allowed the bank to position itself better on the market.

5.4 Limitations of Study

The main limitation of the study was the difficulty in obtaining data that was likely to have a strong direct effect on the analysis of customer retention. This was because customer retention is influenced by many other factors such as the product variety, service quality among other variables. Failure to disclose information by the target respondents posed great limitation. This challenge was handled through letters of identification from the University.

In addition, the respondents also feared disclosing the situation as is or diverging more accurate information for fear of losing to the competition. To overcome this challenge, the researcher assured anonymity of the information collected besides assuring them that the data collected was only to be used for academic purposes.

It was also difficult to access data because some respondents failed to give adequate information. However, the researcher assured them that the information was confidential and would be used only for academic purpose. Time limitation posed a great constrain in carrying out this study. This challenge was handled through rescheduling of the time plan so as to meet the planned activities within the limited time available. The financial resources available to carry out the study were not adequate. The researcher however utilized the only available resources to facilitate the success of the study.

5.5 Recommendations

From the findings, it was evident that customer relationship management had affected customer retention thus the study recommends that commercial banks should improve in customer satisfaction, interaction with customers and systems to know their needs. On technology adoption commercial banks should adopt new information technologies which would meet the customer needs and improve efficiency in the banking industry in Kenya. The study recommends that commercial banks adopt Information technologies which would improve task completion rate, improved the bank's agency banking and improved the portability of the bank's services.

On service recovery the study the study recommends that commercial banks should put up mechanisms to solve customer dissatisfaction issues, customer feedback, customer complaints and gets back to the client affected by poor service. The study finally concluded that commercial banks should improve on product differentiation by differentiating market segments and have unique financial products.

5.6 Suggestions for Further Study

This study laid emphasis on strategic responses adopted by commercial banks in Kenya to enhance customer retention. Research should also be conducted on factors affecting customer retention strategies adopted by commercial banks in Kenya.

The study further recommends that further studies be conducted on strategic responses by organizations to devolved governance in Kenya as governance services in Kenya have been devolved.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

STRATEGIC RESPONSES ADOPTED TO ENHANCE CUSTOMER RETENTION BY COMMERCIAL BANKS IN KENYA

Kindly answer the questionnaire by ticking in the appropriate box

Section A: Demographic Information

1. Name of the bank..(Optional)
2. How long has the bank been operational in Kenya??

   Less than 10 yrs ( ) Between 10-20 yrs ( )

   Between 20-30 yrs ( ) Between 30-40 yrs ( )

   More than 40 yrs ( )
3. How many employees does the bank have?

   Less than 1000 ( ) Between 1000-3000 ( )

   More than 3000 ( )
4. Indicate the ownership of the bank

   Multinational ( ) Indigenous ( )

Section B: Customer Retention Strategies

5. Below are several statements on the different strategies adopted by commercial banks as they seek to improve their customer retention. Kindly indicate the extent to which your bank has applied these strategies. Use a scale of 1-5 where 1=no extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

Customer Relationship Management Strategy	**1**	**2**	**3**	**4**	**5**
The bank has created a platform to manage interactions with customers and synchronize business processes					
The interaction system with customers has improved customer satisfaction levels					
The interaction system with customers has reduced the number of					

customer complaints					
The interaction system with customers has enabled the back attract new customers					
The interaction system with customers has enabled the bank learn the expectations and needs of its customers					
The interaction system with customers has enabled the bank meet customer expectations in time					
The interaction system with customers has enabled the bank get real time feedback on its performance					
The interaction system with customers has enabled the bank in identifying areas of new product development and improvement					

6. To what extent has customer relationship management strategy affected customer retention in your bank?

    Very great extent [ ]

    Great extent [ ]

    Moderate extent [ ]

    Little extent [ ]

    No extent [ ]

Technology Adoption	**1**	**2**	**3**	**4**	**5**
The Bank has adopted new technologies on time					
Integration of IT in customer management has helped improve the Bank's capabilities of understanding customer behavior					
Adoption of new technologies have improved task completion rate among staff					
Adoption of new technologies has improved customer convenience when transacting					
Adoption of information technologies has improved the Bank's agency banking management					
Adoption of information technology has increased the modes of service delivery in the Bank					
Adoption of information technology has increased the ability of the bank to collaborate with other service providers i.e. point of sale outlets					
Adoption of information technology has improved the portability of the Bank's services internationally					

7. To what extent has technology adoption affected customer retention in your bank?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

No extent [ ]

Service Quality Strategy	**1**	**2**	**3**	**4**	**5**
The Bank has used quality service delivery as a strategy to retain customers					
The Bank carries out frequent customer satisfaction surveys					
The Bank tries to much service delivery to service promised in the corporate strategy					
The Bank builds confidence among customers when delivering services					
The Bank tries to act responsively to changing customer preferences					

8. To what extent has service quality strategy affected customer retention in your bank?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

No extent [ ]

Service Recovery	**1**	**2**	**3**	**4**	**5**
The bank has mechanisms to detect customer dissatisfaction					
The Bank has mechanisms to solve customer dissatisfaction issues					
The Bank has a mechanism to collect customer feedback on their services rendered by our staff					
The Bank has a committee that reviews customer complaints for better solution development					
The Bank has gets back to the client affected by poor service					

delivery					

9. To what extent has service recovery affected customer retention in your bank?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

No extent [ ]

Product Differentiation	**1**	**2**	**3**	**4**	**5**
The Bank has a well differentiated financial products from other banks					
The bank has a well differentiated market segment from other banks					
The Bank has unique financial products for its customers					
Financial product differentiation has allowed the Bank to position itself better on the market					
Differentiation has made bank products very unique					

10. To what extent has product differentiation affected customer retention in your bank?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

No extent [ ]

11. To what extent have all the above strategic responses affected customer retention in your bank?

Very great extent ( ) Great extent ( )

Moderate extent ( ) Little extent ( )

No extent ( )

Section C: Effectiveness of Strategies Adopted in Enhancing Customer Retention

1. Below are several strategies adopted by organizations in enhancing customer retention? Kindly indicate the extent to which each of these strategies have been effective in enhancing customer retention in your organization. Use a scale of 1-5 where 1=no extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

Strategies	**1**	**2**	**3**	**4**	**5**
Customer relationship management strategy					
Adoption and application of technology					
Continuous service quality improvement					
Service recovery					
Product differentiation					

2. Please indicate any other strategy applied by your Bank if it's not among the ones listed above.

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