# CUSTOMER RETENTION STRATEGIES APPLIED BY COMMERCIAL BANKS IN KENYA

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# DECLARATION

This research project is my original work and has not been presented for examination to any other universities.

Signature. Date. i s / l i /p.-DiO

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This research project has been submitted for examination with my approval as a University Supervisor.

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# DEDICATION

This work is dedicated to my parents John Mwai and Nancy Mwai for their financial and moral support, my fiance Edwin Galiwango for his encouragement, and to my sisters Elizabeth Mwai and Lucy Mwai for their prayers throughout this project.

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# ABSTRACT

This study concerns customer retention strategies applied by commercial banks in Kenya. The main objectives of the study were to establish the extent to which the customer retention practices are applied and also to what extent the adopted strategies have supported retention. The need for the study arose because of the threat of substitute products like the use of mobile to transfer money, e-commerce among others, the threat of new entrant, and the need to prevent customer attrition in banking industry, as it is less costly to retain old customers than to acquire new ones.

The researcher employed a survey design with a population of 44 banks headquartered in Kenya. Data was collected using a semi-structured questionnaire. A 5-point likert scale was used. Data analysis was done using descriptive statistics consisting (frequency, percentage, mean and standard deviation).

Regarding the extent to which customer retention practices were applied, findings indicated that, the service quality strategies are practiced to a large extent and they were also regarded as the most important practices in attaining customer retention, while loyalty strategies were the least popular.

Based on the findings, the researcher recommends that the banks should put more emphasis on establishing switching cost mechanism, reward loyal customers, establish specific goals for customer retention, appoint someone to head customer retention perform lost customer analysis and conduct periodic surveys.

The study suggests' more research to be done about loyalty strategies in the banking industry. Finally the limitations encountered during the study one of them being, lack of decision makers to fill the questionnaires have been stated.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the study

In a constantly changing environment companies are increasingly confronted with the threat of loosing key customers to competitors. The growing business environment has led to increased choice for consumers, lower prices, lower margins, dramatically changing global infrastructures, market economies expanding that is deregulation and privatization, telecommunications infrastructure, investment from analog to digital (Muchira, 2005). Cook (2002), outlines that as customers begin to experience a better service their expectation rise - the customer makes conscious and unconscious comparisons between different service experiences. She says that many organizations however overlook the potential existing customers to develop their business. This rise of expectation has therefore necessitated strategic changes in the way organizations run their business and relate to their customers, that is the overall internal and external environment. (Siboe, 2006).

The company's marketing environment includes forces close to the company that affect its ability to serve consumers, such as other company departments, channel members, suppliers, competitors and public. The marketing environment facing Kenyan firms has been very dynamic. There has been a shift from a stable, predictable and competitive environment to one that is quiet unpredictable and competitive. Kibera and Waruingi (1998), explain that most organizations have in the face of these challenges adopted various strategies to remain relevant and more so in meeting the requirements of their customers.

### 1.1.1 Customer Retention

Kotler and Amstrong (2001), state that in the past many companies took their customers for granted. Companies practiced a "leaky bucket" approach to marketing. Meaning companies could keep filing the marketing bucket with new customers without worrying about losing old customers through holes in the bottom of the bucket.

However in Kenya today, changing demographics, more sophisticated competitors, sophisticated buyers means that there are fewer customers to go around. Kotler (2001) says companies are realizing that losing a customer means losing more than a single sale; it means losing the entire stream of purchases that the customer would make over a lifetime of patronage.

### 1.1.2 The banking sector in Kenya

Commercial banking took root in Kenya at the turn of the 20th century with the partitioning of Africa by the European imperial powers. The first bank to establish operations was National Bank of India, which started a branch in Mombasa in 1896. By 1972, there were a total of 12 commercial banks operating in the Kenyan market. The Kenyan - banking sector comprises of 44 commercial banks, 1 mortgage finance company (following the merge between Kenya Commercial Bank and Savings and Loan with effect from January 1, 2010), 1 deposit taking Micro finance institution and 130 foreign exchange bureaus. (Central Bank of Kenya, Monthly Economic Review, 2010)

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. The KBA serves a forum to address issues affecting members. (Price Water Coopers Report, 2008).

The banking sector generates revenue through financial intermediation involving mobilization of deposits from surplus units in the economy and lending to the deficit units to finance their productive Investments (Metropol, 2002). In Kenya, the liberalization of economies has opened up markets to competition with different competitors focused on increased market share. Competition has taken an international direction due to urbanization (Charles & Gareth, 1998). Technological advancement has greatly altered the way of doing business and more so the relationship of organizations with their customers.

The banking sector in Kenya has witnessed considerable growth in the last few years. In order to meet this growth, banks are continuously differentiating their products and services to create competitive advantage and retain customers. A bank like Barclays has input a computerized customer survey gadget in order to measure the customer's satisfaction rate every time they receive a service as a way of retaining customers. Banks are promoting their services through pitching tents at various companies, churches, schools, hospitals an activity that is based to encourage people to open account with those banks, banks are also using sales people to sell their services to individuals rather than having the people go to the banks and ask for their services.

Standard online edition, 15th July 2010 indicated that, already, banks are using the mobile banking (M-banking) platforms and agents to tap the under-banked and unbanked population. Previously, Finacess 2006 National Survey indicated that 54.4% of the respondents interviewed have access to mobile phones. Banks adopting M-banking will therefore have a greater advantage of their counterparts. Each bank is striving to be unique when offering these services; this is by launching mobile banking products that are youthful, creative and more technologically advanced to face their competition. Some of this products include; Pesa Pap by Family Bank, KCB mobile banking and M-Kesho recently launched by Equity Bank in collaboration with Safaricom to allow registered M-Pesa account holders to get loans based on their M-Pesa usage and deposits and also earn interest on their M-Kesho accounts.

The challenge for banks going forward is to position themselves in the market through applying strategies that will not only attract new customers but retain those customers as well. This offer of superior customer service will prevent banks from losing customers due to poor services, low quality, new entrants and bank switching.

## 1.2. Statement of the problem

In today's marketing environment an increasing important source of competitive advantage is the way we service customers. Kotler and Armstrong, (2001) asserts that customer satisfaction depends on products' perceived performance in delivering value relative to a buyer's expectations. Satisfied customers make repeat purchases and they tell others about their good experiences with the product or service. Smart companies aim to delight customers by promising only what they can deliver, then delivering more than they promise.

However Cook, (2002) asserts that, many company's have placed increasing emphasis on customer service as a means of gaining competitive advantage yet few organizations are delighting their customers. Studies conducted previously by Gachuri (2008), Gachie (2008), and Gakenia (2008) on Implication of ICT in marketing in commercial banks in Kenya, evaluation of service quality in Kenya Commercial Bank, and strategy implementation in commercial banks respectively, suggest that the bank sector has tremendously grown and is facing major competition from other avenues. For example, Gachuri (2008) identifies two potential competitive forces in the banking industry.

The first challenge is that of threat of substitute products; the telecommunication industry has grown tremendously through facilitating easy access of depositing and withdrawing money through money transfer. Secondly, there is threat of new entrants, this is due to stability and therefore, protecting existing customers bases through quality service provision, whilst finding creative ways to meet the new demands, will be key to success in the new communication market (Zeithaml et al, 2000). According to Gachuri (2008) there is need for management to formulate customer retention strategies.

Price Water Coopers (2008) report indicated that, the banking sector in Kenya has witnessed considerable growth in the last few years. Players in this sector have experienced increased competition resulting from increased innovations among the players and new entrants into the market.

In their 2006 nationwide financial survey, Financial Sector Deepening (FSD) indicated that, among the respondents who had stopped using the banking services; 36.9% complained of high charges, 9.2% of erroneous charges, while 5.7% felt that the staff did not treat them well, these represents 51.8% of the population, this clearly demonstrates that, there is need for the banks to re-evaluate their retention strategies.

A customer retention study done by Siboe, (2006) on the internet service providers indicated that, service quality is the most important factor in retaining customers, although other strategies such as customer satisfaction, customer loyalty and compliant handling system seemed to play a significant role in retaining customers. From his research it can be deduced that superior service is just but one of the factors that may lead to customer retention. He recommends further research in other service industries in order to ascertain his findings as retention strategies vary from one company to the other.

This research therefore, delves in the customer retention strategies that the commercial banks in Kenya are currently using to competitively survive in the market. It seeks to fill the gap by providing answers to the following research questions: -

i) What are the customer retention strategies used by commercial banks in Kenya?

ii) How important/effective are each the strategies in retaining customers?

## 1.3. Objectives of the study are to:

i) Establish the extent of adoption of various customer retention strategies in commercial banks in Kenya.

ii) Establish the extent to which the strategies adopted have supported retention.

## 1.4. Importance of the study

The study will have a symbiotic benefit to the bank and the customer. One, the banking sector will benefit significantly as the study will provide information to enable it identify effective and non-effective strategies. The harnessed information will further help bank managers in articulating deliberate strategies that are targeted at winning and retaining customers.

Two, the customer will also benefit as the management will be more customer need oriented while providing their services, leading to a more happy and satisfied customer. This symbiotic relationship will result to the banking sector meeting their customer's expectations and the bank subsequently gaining a competitive advantage over their rival.

Policy makers stand to gain significantly from the findings of this study in that they will have at their disposal vital information on customer retention strategies and may use it in formatting policies that relate to the banking industry in the country.

The study will also benefit the academic researchers as it will add to the existing body of knowledge and provide a source of reference to their studies.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1. Introduction

Contrary to the tradition method of pushing sales through advertising, promotion and offering of low prices, companies are now keen to incorporate the marketing concept through identifying customer needs and then striving to achieve them. This is as a result of stiff competition, new entrants and the advancement in technology. Firms have realized that, it is not enough just to compete for the share of customers by attracting and then acquiring them, rather keeping these customers means realizing profits through cutting costs on acquisition as well as customer longevity. The banking sector for instance seems to realize profits from one single customer depending on the length of stay. Firms are now working relentlessly to identify what makes the customers happy. This is evident in the advertising of daily papers on firms calling for qualified individuals or firms to undertake customer satisfaction survey, employee satisfaction survey, employee team building and much more. In the developed countries, companies even pay individuals to take part in their online consumer research. This clearly shows that firms have recognized that, in order to stay in business they must work with the customers to maintain long-term relationships.

## 2.2. Customer Retention

As customers begin to experience a better service their expectation rise. The customer makes conscious and unconscious comparisons between different service experiences irrespective of the industry sector. Cook (2002) states that, a company's ability to attract and retain new customers therefore is a function not only of its product or product offering but also the way it services its existing customers and the reputation it creates within and across market places.

Statuss et al. (2001) defined retention as the customer's liking, identification, commitment, trust, willingness, to recommend, and repurchase intention. Customer retention implies a long-term commitment on the part of the customer and the firm to maintain the relationship.

Cook (2002), there are underlined statistics that show just how crucial retaining customers can be; Reducing customer defections can boost profits by 25-85 per cent (Harvard Business

School). The price of acquiring new customers can be five times greater than the cost of keeping current ones (US Office of Consumer Affairs).
Retaining old customer cost less than acquiring new ones. Old customers pay less attention to competing brands and advertising, are less price sensitive and create favorable word of mouth. Customer retention has been advocated as an easier and more reliable source of superior performance (Reichheld and Sasser, 1990). Customer retention brings benefits such as employee retention and satisfaction, better service, lower cost (Riechheld, 1995), lower price sensitivity, positive word of mouth, higher market share, higher efficiency and higher productivity (Zineldin, 2000).

Customer retention has been shown to be a primary goal in firms that practice relationship marketing (Gronroos, 1991). While the precise meaning and measurement of customer retention can vary between industries and firms there appears to be a general consensus that focusing on customer retention can yield several economic benefits (Dawkins and Reichheld, 1990; Reichheld, 1990; Buttle, 2004). As customer tenure lengthens, the volumes purchased grow and customers churn, customer replacement costs fall. Finally, retained customers may pay higher prices than newly acquired customers, and are less likely to receive discounted offers that are often made to acquire new customers. All of these conditions combine to increase the net present value of retained customers.

Kotler (1997) states that the cost of attracting a new customer is five times the cost of keeping the current customer happy. It requires a great deal of effort to induce satisfied customers to switch away from their current suppliers. There are two ways to strengthen customer retention, one is to erect high switching barriers and the other is to deliver higher customer satisfaction.

The tangible effects of companies' commitment to retaining customers were first published by Dawkins and Reichheld (1990) who claim that higher retention rate leads to higher profitability, as Dawkins and Reichheld claimed, do companies proactively retain their customers? How do companies, in practice, keep their customers? What are the gaps between theories and practice? Can the espoused strategies, particularly those proposed by

Reichheld (1996), be applied in these companies? Reichheld's core proposition is that building and sustaining customer loyalty require a three-pronged approach: retaining employees; retaining investors; and retaining customers.

## 2.3 Customer Retention Strategies

Pearce and Robinson (1991), define strategy as large scale, future-oriented plans for interacting with the competitive environment to optimize achievement of organizational objectives. "Strategy is the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets and fulfill stakeholder expectations' (Johnson and Scholes, 2003).

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

Kotler (1999) clearly outlines that firms must pay closer attention to customer defection rate and take steps to reduce it. He outlines the following steps: -Company must define and measure its retention rate, company must distinguish the causes of customer attrition and identify those that can be managed better, the company needs to estimate how, much profit it loses when it loses customers and lastly the company needs to figure out how much it would cost to reduce the defection rate.

In terms of attracting and retaining customers, firms are reminded to be aware of the different "loyalty coefficient" - the amount of economic forces needed to move different kinds of customers. The easiest to win is likely to be the one who will be the quickest to defect. According to Reichheld (1996), the customers who glide into your arms for a minimal price discount are the same customers who dance away with someone else at the slightest enticement.

Payne and Frow (1997) examined customer retention in the context of a major UK electricity supplier. Specifically, they modeled the probable impact of marketing programmes that focused on either retention or acquisition in terms of four input variables, namely number of customers, retention rates, profit per customer and cost of acquisition. Based on their simulation, they then suggest that retention strategies need to be based on the understanding of the relative profitability of different segments (the economics of retention), existing mass marketing strategies need to be replaced by those based on identifiable value propositions, and retention management programmes should be aimed at specific segments that are presently or potentially profitable. Page et al. (1996) and Payne and Frow (1997) acknowledged that customer retention brought tangible financial benefits to firms and that existing, potential and new customers should be treated differently. Reichheld acknowledges that not all customers prefer a long-term relationship. There are, however, customers who not only prefer stable long-term relationships, but also inherently spend more, pay promptly and require less service.

Some of the strategies of customer retention include,

### 2.3.1 Service Quality Strategies

Zeithaml and Bitner (1996) defined service quality as the way in which the whole service experience is performed. Their model of customer perceptions of quality and customer satisfaction hypothesized that satisfaction is more of an attitude and this attitude would influence perceptions of service quality, which in turn would influence purchase intentions: Failure to provide reliable service may result in customer dissatisfaction and possible defection, they maintain that a dissatisfied customer is likely to switch to a competitor and may inform others of the bad experience.

Payne et al (1997) stated that customer focused quality is of strategic importance and that customer's perception of quality is a critical variable to a companies profitability. Zeithaml and Bitner (1996) highlighted that service quality is imperative to gain and sustain competitive advantage. Gronroos' (1990) views service quality in two dimensions;

Technical quality - the quality of what is delivered and Functional quality - the quality of how the service is delivered. The customers perceive what he receives as the outcome of the process in which the resources are used, i.e. the technical or outcome quality of the process. But she/he also and often more importantly, perceives how the process itself functions, i.e. the functional or process quality dimension the construct of service quality as conceptualized in the service marketing literature centers on perceived quality, defined as a consumer's judgment about an entity's overall excellence or superiority (Zeithaml, 1996).

Kotler (1999) outlines five determinants of service quality as reliability, responsiveness, assurance, empathy and tangibles: Bond et al (2002) defines reliability as ability to perform the promised services dependably and accurately. Kang et al (2004) identifies the following measure of reliability:-Providing services as promised, dependability in handling customers' service, performing the services right the first time, providing services at the promised time, maintaining error-free records.

Zeithaml (2002) defines responsiveness as the ability of a company to provide appropriate information to a customer when a problem occurs, having mechanism to handle returns and provide necessary guarantees. Kotler (1999) defines responsiveness: as the willingness to help customers and to provide prompt services. Kang et al (2004) identifies the following measure of responsiveness:-Keeping customers informed about when services will be performed, prompt service to customers, willing to help customers and readiness to respond to customers' requests.

Bond et al (2002) defines assurance: as the knowledge and courtesy of employees and their ability to convey trust and confidence. Kang et al (2004) identifies the following measure of assurance:- employees who instill confidence in customers, making customers feel safe in their transaction, employees who are consistently courteous and the ability to perform the promised services. Kotler (1999) defines empathy as the provision of caring, individualized attention to customers. Kang et al (2004) identifies the following measure of empathy: - giving customers individual attention, employees who deal with customers in caring fashion, having the customer's best interest at heart, employees who understand the needs of their customers and convenient business hour.

Kurtz et al (2002) outlines that most companies keep a record of customer complaints as a measure of service quality. Kotler (1999) outlines that service companies have a clear sense of their target customers and customer needs they are trying to satisfy.
The most comprehensive study in this field, by Zeithaml et al. (1996), determines that service quality influences different intentions, such as giving recommendations, doing more business, and willingness to pay more.

### 2.3.2 Loyalty strategies

Ribbink et al (2004) defines customer loyalty as a deeply held commitment to rebuy or repatronize a preferred product/service consistently in future thereby causing repetitive same brand or same brand set purchasing, despite situational influences and marketing efforts having potential to cause switching behavior. Suhartanto et al (2001) defines a loyal customer as one who continues to repurchase from the same service provider whenever possible. Continues to recommend others and also maintains a positive attitude towards the service provider. They state that there are two dimensions of customer loyalty: behavioral and attitudinal. The behavioral dimensions refer to a customer's behavior in repeat purchase. Indicating a preference for a brand or service over time. Attitudinal dimension refer to a customers intention to repurchase and recommend which are good indicators of a loyal customers. Smith (1996) states that customer loyalty is not just repeat purchases. It is about customers having a sense of belonging. For customers to feel part of our retail experience we need to win their hearts and minds - not just their wallets! Before we have a chance in establishing such an important relationship we need to understand our customers, how they shop and what they buy - the basics.

Kotler (1993) states that buyers can be divided into groups according to their degree of loyalty. He states that some consumers can be completely loyal - they buy one brand all the time, others are somewhat loyal - they are loyal to two or three brands of a given product or favor one product and sometimes buying others, still others show no loyalty to any brand, they either want something each time they buy or always buy a brand on sale.

Zeithaml et al (1996) present a very intuitive classification of an individual's link between satisfaction, loyalty and customer retention. Customers can be classified into four different groups: loyalist/apostle (high satisfaction - high loyalty), defector/terrorist (low satisfaction - low loyalty), mercenary (High satisfaction - low loyalty), and hostage (low satisfaction - high loyalty).

Smith (2006) in his study, CRM and Customer service outlines the following in developing a loyalty card program:- A company needs to establish whether it has real loyal customers and long term benefits of the loyalty scheme to customer and the company, assess the through cost of the loyalty program in terms of time, resources and increased value of customer, look and the balance between retention and new acquisition, examine ways in which the loyalty program can be build to fit the varying needs and expectations of customers. Reichheld (1996) proposes that in building and sustaining customer loyalty we require a three - pronged approach: retaining employees; retaining investors; and retaining customers.

In there study on Delivering customer loyalty schemes in retailing: exploring the employee dimension (Smith et al 2004), found out that there was a consensus between management and employee that loyalty scheme aims to increase the number of customer visiting shops reward loyal customer and create more loyal ones they also found out that although loyalty cards presented an opportunity for collection of additional customer information on customers by employees, this opportunity is not utilized. Another study on customer loyalty in the hotel industry: the role of customer satisfaction and image (Suhartanto et al 2001) found out that customer satisfaction with performance reception, food and beverage, the house keeping department and price are important factors in determining whether a customer will repurchase and/or recommend.
In their study on the impact of switching costs on customer satisfaction-loyalty link (Jonathan et al 2001) have operationalized switch loyalty as a behavior (hard-core loyalty, repeat purchase probability) and as an attitude (brand preference, commitment intention to buy). They identified the following measure of customer loyalty:- repurchase intention, resistance to switch to competitors product that is superior to the preferred vendors product and willingness to recommend preferred vendors product to friends and associates. In his

study on factors that determine customers loyalty to a mobile telephone service provider: A case of mobile telephone users in Nairobi, (Muturi 2004) found out that the following factors are important in ensuring customer loyalty in mobile telephone:-Value added services such as variety of services, security and after sales services such as warranty and guarantee, quality of service and convenience, price, promotion or marketing communication and lastly customer service and relationship marketing.

### 2.3.3 Customer Satisfaction Strategies

Kotler (1999) defines customer satisfaction as a person's feelings of pleasure or disappointment resulting from comparing a products perceived performance in relation to his or her expectations. He further suggested that the following tools can be used for tracking and measuring customer satisfaction: -complaint and suggestion systems-a customer centered organization makes it easy for its customers to deliver suggestion and complaint, customer satisfaction surveys-Responsive company obtain a direct measure of customer satisfaction by conducting periodic surveys, ghost shopping-companies can hire persons to pose as potential buyers to report their findings on strong points and weak points they experienced in buying the companies or competitors product. Lost customer analysis-Companies should conduct customers who have stopped buying or who have switched to another supplier to learn why this happened. Reichheld (1996) suggested that customer satisfaction programs are important tools that can increase profits by preventing customers from defecting.

Focusing on satisfaction helps eliminate the negative word of mouth potential of dissatisfied customers. It has been found that more than 90% of dissatisfied customers will not exert their own effort to contact a company to complain; they will simply take their business to a competitor while voicing their dissatisfaction to other potential customers. Losing one dissatisfied customer may be more severe than it sounds; one dissatisfied customer may speak to as many as nine others, multiplying his/her dissatisfaction nine fold (Terry et al, 1998).

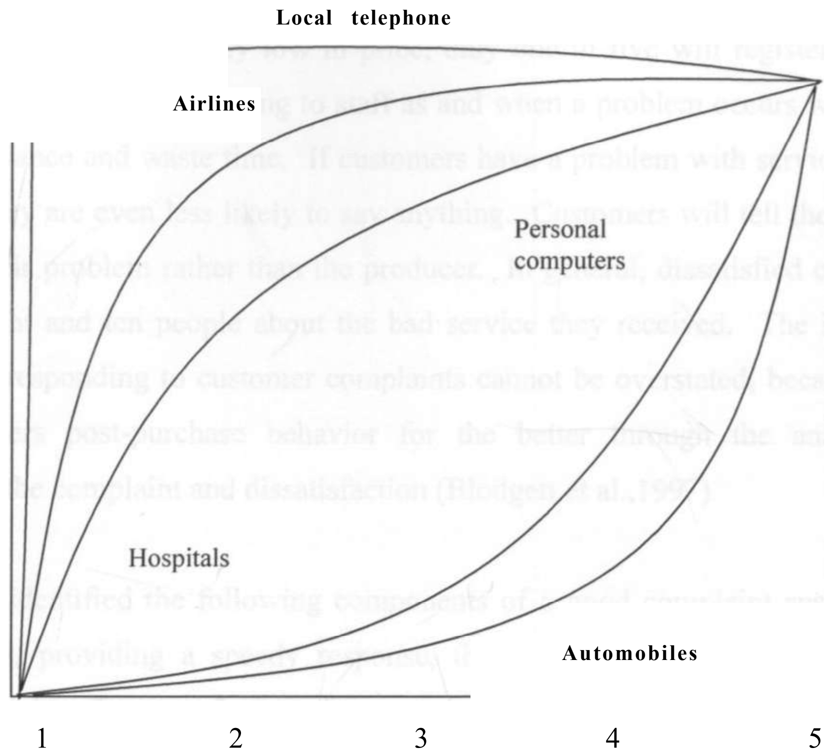
A study by Bolton (1998) explores the relationships between customer retention, intentions and satisfaction. This study argues that changes in customer satisfaction can have important financial implications for the organization because lifetime revenues from an individual customer depend on the duration of his/her relationship, as well as the dollar amount spent across billing cycles.

Mohammed (2000) also highlights the importance of internal customers and how much they impact on the quality of service finally offered to the customers. Yes, of course focusing on the external customer is the right thing to do and ultimately it is external customers who pay for our goods and services. Internal customers are also real, they represent the value chain and through the levels of synergy generated from involving each our employees, we will then be in a position to impact on the internal customer with the desired effect. As the saying goes, "you are only as good as your weakest link in the chain".

Mohammed (2000) outlines that achieving and maintaining an effective customer focused culture would therefore require considering all of the following. First of all, being customer focused means that we are attempting to get closer to our customers, know them better, be clearer about their needs, be aware of what concerns they may have, and have a feel for their future needs. It is also very important to get some direct feed back on how well we are doing from the customer's perspective. Sometimes profitability and increases in business are extremely poor measures and it could well be that the reasons are incidental rather than deliberate. Customer focus means that we are in a position to assess the adequacy of current approaches for fulfilling our customer needs and in a position to know what new services, products and innovations are required in the future. Customer focus means that through concentrating on our customers, we can identify our strengths and weaknesses and assess our performance from a competitive perspective. Finally, the external feedback is the echo of our efforts and the "acid test" for determining whether we are doing the right things and thereby gauge employee performance and the most appropriate reward and recognition systems.

Kotler and Amstrong (2001) describe retention as a link between customer satisfaction and loyalty follows below:

Figure 1: The relationship between customer satisfaction and loyalty




**Adopted from: Thomas O. et.al; "Why Satisfied Customers Defect," Harvard Business Review, November - December 1995, p.48**

In the diagram, in all cases, as satisfaction increases, so does loyalty. In highly competitive markets, such as those for automobiles and personal computers, there is little difference between the loyalty of less satisfied customers and those who are merely satisfied, however a slight drop from complete satisfaction can create an enormous drop in loyalty. This means that companies must aim high if they want to retain their customers.

In his study on the determinants of customers satisfaction for mobile phone subscribers in Nairobi (Odhiambo 2003) concluded that: -customer service, assurance, service responsiveness, service access, reliability, service security, product/service features, service credibility and service equity/fairness are the major determinants of customer satisfaction.

### 2.3.4 Complaints-handling System

Gavin et al (1998), states that one in four customers has a problem with products purchased. If the item purchased is relatively low in price, only one in five will register a complaint. Most customers feel that complaining to staff as and when a problem occurs will only cause additional annoyance and waste time. If customers have a problem with service, rather than with product, they are even less likely to say anything. Customers will tell their friends and family about their problem rather than the producer. In general, dissatisfied customers will tell between eight and ten people about the bad service they received. The importance of identifying and responding to customer complaints cannot be overstated, because firms can change consumers post-purchase behavior for the better through the analysis of the determinants of the complaint and dissatisfaction (Blodgett et al.,1997).

Boshoff (1997) identified the following components of a good complaint system: Having clear procedures, providing a speedy response, the reliability (consistency) of response, having a single point of contact for complaints, ease of access to the complaints process, ease of use for the process, keeping the complainant informed, staff understand the complaint processes, complaints are taken seriously; employees are empowered to deal with the situation, having follow-up procedures to check with customers after resolution, using the data to engineer- out the problems, using measures based on cause reduction rather than complaint volume reduction.

One can investigate the impact of documented complaints-handling processes on customer retention for two main reasons. First, there are already some indications that a well-executed complaints-handling process is of strategic relevance because it can have a positive effect on customer retention (Smith et al, 1999; Stauss et al, 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. 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. Despite the strategic relevance of complaints handling, it is a process, which it appears to be accorded little importance in many companies (Stauss et al, 2004).

The second reason for investigating complaints handling is the timely publication of an international complaints-handling standard. The International Organization for Standardization (ISO)'s new standard, ISO 10002, provides a documented guide to the design and implementation of an effective complaints handling process. The standard claims that a major benefit from excellent complaints handling is maintained to enhance customer loyalty (ISO, 2004). ISO 10002 is drafted to be compatible with the quality management system, ISO 9000, although it's also expected to be used independently of ISO 9000. However, ISO 10002 is not the only documented complaints handling standard - there are others in the UK (CMSAS 86:2000) and Australia (AS 4269). In addition, a number of academic researchers have identified attributes of high quality complaints-handling processes (Hart et al, 1990). The majority of their recommendations have been incorporated into ISO 10002. Investigating the relationship between having a documented complaints handling process and customer retention outcomes provides a pre-ISO 10002 benchmark of performance against which change can be plotted.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1. Research design

The researcher will use a descriptive research design to obtain data for this study. A descriptive research as the name implies, aims at describing the characteristics of the population under study (Queel999). In order to find out the retention strategies applied in the commercial banks, the researcher will seek to describe possible behavior, attributes, values and characteristics of the population.

## 3.2. Population of the study

According to the Central Bank of Kenya, the industry's regulator, there were 44 commercial banks as at January 2010. The researcher will focus on all commercial banks operating in Kenya but headquartered in Nairobi. The study will therefore be a census.

## 3.3. Data collection

Primary data will be collected using a semi-structured questionnaire. The questionnaire will be divided into three sections; A, B and C. Section A will contain general information of the respondent, section B, will enquire on the retention practices employed by each respective bank and how important the practice is in retaining customers and section C will enquire potential improvements on customer retention strategies applied by each bank. The questionnaires will use a likert scale of 1 -5 as it is the ideal tool for generating statistical measurements of people's attitudes and opinions. The researcher will administer the questionnaire through an interview and where the respondent is not readily available, a "drop & pick later" method will be used. The interview has been recommended as the best option to ensure minimal return of unfilled or lost questionnaires. The study targets heads of marketing department or relationship managers.

### 3.4. Data analysis method

The data obtained from the questionnaire will be analyzed using descriptive statistics that involve mean, standard deviation, frequencies and percentages. Section A will be analyzed using frequencies and percentages, Section B and C will be done using mean and standard deviation. The mean is the only measure which takes into account each score in the distribution, standard deviation is sensitive to extreme scores, while frequencies gives a record of the number of times a score or a response occurs, and percentages are important in comparing groups that differ in size (Mugenda, 2003). Data will be presented using tables, and graphs for ease of interpretation and reporting.

# CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

## 4.1. Introduction

This chapter presents the analysis and findings from the primary data that was gathered from the respondents of the study. The researcher used a questionnaire to collect data. Out of 44 commercial banks only 30 responded, the rest were either not filled while others were incomplete. Mugenda and Mugenda's (1999) state that a response rate of 50% is sufficient for statistical analysis. In this study the response rate was 68.2%.

## 4.2. Demographic Profile of the Respondents

In this study, the profile of the respondents was noted in terms of company age i.e. year of incorporation, number of branches, employee's number and ownership structure of the bank and the scope of operation. The findings and analysis are presented herein.

### 4.2.1 Respondents Company Age

In order to know how long the bank has been operating, the respondents were asked to indicate the year in which their respective banks were incorporated. That is 1850 - 1900, 1901 - 1950, 1951 - 1999 and 2000 - 2010.

The findings in table 1, illustrate that most banks were incorporated between 1951-1999 with the highest percentage 63.3%. The least (13.3%) were incorporated between 2000-2010. This information gives depth to the responses as the banks have been in the industry for quite some period of time.

**Table 1: Company Age**

| Years | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| 1901-1950 | 7 | 23.3 | 23.3 | 23.3 |
| 1951-1999 | 19 | 63.3 | 63.3 | 86.7 |
| 2000-2010 | 4 | 13.3 | 13.3 | 100.0 |
| **Total** | **30** | **100.0** | **100.0** | |

### 4.2.2 Work Experience

The researcher asked the respondents to indicate whether they had been with the bank for less than 1 year, 1-2 years, 3-5 years or above 5 years. The findings are presented below.

Table 2: **Work Experience**

| Years | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| 1-2 | 12 | 40.0 | 40.0 | 40.0 |
| 3-5 | 12 | 40.0 | 40.0 | 80.0 |
| Above 5 | 6 | 20.0 | 20.0 | 100.0 |
| Total | 30 | 100.0 | 100.0 | |

The results in the above table show that at least 40% of the respondents had a working experience of more than 2 years in the marketing function. Those would give the responses that required the marketing depth of response.

### 4.2.3 Ownership Structure of Bank

With regard to whether the bank is privately owned, Government owned, both Government and private, foreign owned or both foreign and privately owned, the following results were deduced.

Table 3: **Ownership o|• bank**

| Ownership Structure | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Privately | 10 | 33.3 | 33.3 | 33.3 |
| Government | 3 | 10.0 | 10.0 | 43.3 |
| Both Gov. & Private | 9 | 30.0 | 30.0 | 73.3 |
| Foreign | 2 | 6.7 | 6.7 | 80.0 |
| fothj^oreign & Private | 6 | 20.0 | 20.0 | 100.0 |
| Total | 30 | 100.0 | 100.0 | |

Table 3 shows that most banks are privately owned, with a higher percentage of 33.3%. While 30% of the banks are Government and privately owned, there is quite a number of tanks that are foreign and privately owned. The least in the industry are the banks, which are foreign owned. Responses from a Government owned bank and a private owned bank are expected differ in strategies because of the ownership structure. A foreign owned bank will also differ greatly due to their origin.

### 4.2.4 Number of Branches

In order to know how many branches the bank has, respondents were asked to indicate whether their bank has 1-10 branches, between 11 -20 or above 21 as indicated below.

**Table 4: Number of branches**

| LoOf Branches | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| 1-10 | 11 | 36.7 | 36.7 | 36.7 |
| 11-20 | 6 | 20.0 | 20.0 | 56.7 |
| Above 21 | 13 | 43.3 | 43.3 | 100.0 |
| **Total** | **30** | **100.0** | **100.0** | |

The findings show that most banks have more than 21 branches, which is represented by a higher percentage of 43.3%, followed by the banks that have less than 10 branches with 36.7%. Only 6% of the banks have 11-20 branches. These responses indicate the growth of particular banks.

### 4.2.5 Number of Employees

Respondents were required to indicate the number of staff in the bank has that is less than **1500,** between 1501-3000, between 3001-6000 and above 6000.

**Table 5: Staff Employed**

| No. Of Employee's | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Less than 1500 | 18 | 60.0 | 60.0 | 60.0 |
| **1501**-3000 | 5 | 16.7 | 16.7 | 76.7 |
| **3001**-6000 | 4 | 13.3 | 13.3 | 90.0 |
| Above 6000 | 3 | 10.0 | 10.0 | 100.0 |
| **[TotaP** | **30** | **100.0** | **100.0** | |

[la]ble 5 above demonstrates that most banks have less than 1,500 employees with a high Percentage of 60%, followed by those banks with 1,501-3000 employees with 16.7%. The

banks that have most employees seem to be the fewest with only 10%. This means that most banks in the industry have less than 1,500 employees.

### 4.2.6 Scope of Operation

The researcher seek to know whether the bank operates locally in Kenya, is regional or it operates globally that is Africa and beyond. Table 6 presents the findings.

**Table 6: Scope of Operation**

| Scope | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Local | 14 | 46.7 | 46.7 | 46.7 |
| Regional | 9 | 30.0 | 30.0 | 76.7 |
| Global | 7 | 23.3 | 23.3 | 100.0 |
| **Total** | **30** | **100.0** | **100.0** | |

From the above table, most banks (46.7%) operate within Kenya (locally). While 30% operate within East Africa, the rest 23.3% operate within Africa and beyond. This finding corresponds with the earlier results regarding bank ownership, where it was illustrated that most banks are private owned, it is logical to say that most banks operate locally.

## 4.3 Customer Retention Strategies

The respondents were required to indicate the extent to which their organization deploys various customer retention practices. These were presented with a likert type scale in which they were to indicate the extent in which they practice them, in a 5 point scale, 5 being very large extent and 1 being no extent. For each response category the mean values and standard deviation were computed using SPSS software (version 12.0). Mean values are an indication of the extent of retention practice across the respondent population. High mean values for a given aspect indicate the aspect of retention was widely applied. The observed mean values were rounded off to 2 decimal places and assigned a meaning derived from the nearest corresponding point on the likert scale. The researcher's analysis is that factors that scored between 4.0-4.9 are practiced to a large extent, between 3.0-3.9 are practiced to some extent, between 2.0-2.9 are practiced to a small extent and so on. Standard deviation values are an indicator of the extent to which respondents were in agreement over an aspect. For purposes of this study, standard deviation greater than 1 indicated a high dispersion about the mean, meaning that the respondents differed widely in how they rated a given aspect, while those below 1 indicated a relatively high clustering about the mean, meaning that the respondents gave largely similar ratings.

### 4.3.1 Development of Customer Retention Strategies

The researcher wanted to know to what extent, the banks have developed customer retention strategies. The following results were obtained.

**Table 7: Development of retention strategies**

| Practice | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| **Develop** CR Strategy | 30 | 2 | 5 | 4.07 | 0.785 |
| Valid N (listwise) | 30 | | | | |

A mean of 4.07 indicates that most respondents develop customer retention strategies in their banks to a large extent. The standard deviation is less than 1 indicating that the responses were consistent. Success in retaining customers, according to Reichheld (1996), is attributed to a combination of strategies being pursued. It can therefore be noted that most respondents develop CR strategies to retain customers.

### 4.3.2 Establishment of Specific Goals for Customer Retention

The extent to which specific goals for retaining customers in various banks had been established was also a major concern in this study. Responses were collected from all the respondents and the findings were presented as follows:

**Table 8: Establishment of retention goals**

| ictice | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Jblished Specific goals | 30 | | | 3.93 | 0.907 |
| N (listwise) | 30 | | | | |

e table above shows that most respondents established specific goals to attain customer Mention only to some extent. The standard deviation indicates similar ratings.

These findings mean that most banks are not so keen in establishing goals to attain retention.

### 4.3.3 Measurement of Customer Retention

It was also important to whether organizations measure customer retention as this aspect is described as key in ensuring success in customer retention in the literature review by Reichheld (1996). The findings are presented below.

**Table 9: Measurement of customer retention**

| Practice | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Measure CR | 30 | 1 | 5 | 3.67 | 1.028 |
| Valid N (listwise) | 30 | | | | |

According to the findings above, respondents measure customer retention only to some extent. The standard deviation is greater than 1 indicates a low level of agreement among respondents. This may mean that majority of the banks do not consider measuring retention as a key factor in retaining customers, or it has not been put into consideration.

### 4.3.4 Reliability

Major attributes to measure reliability in the banking sector were used. Some of these attributes include; delivering services as promised and keeping records. These are presented in the table 10 below. The findings show that, both attributes of reliability are practiced to a large extent, however providing service right first time with a highest mean of 4.27 is the most common practice in most banks seconded by providing services at promised time. The standard deviation is less than one and so the responses were consistent.

**Table 10: Reliability**

| Practice | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Provide service right first time | 30 | 2 | 5 | 4.27 | 0.868 |
| Provide services at promised time | 30 | 2 | 5 | 4.20 | 0.761 |
| [Vajjd N (listwise) | 30 | | | | |

### 4.3.5 Responsiveness

Responsiveness is a key aspect in service quality. Some of the attributes that were used to determine whether the organizations are responsive enough were; providing prompt service to customers and willingness to help customers.

The table below shows that, the banks are responsive to a large extent, although most banks provide prompt more because it has the highest mean of 4.40. Respondents are more willing to help customers (4.30), than they are ready to respond to their request (4.27). The standard deviation of less than one indicates that respondents concurred with each other.

**Table 11: Responsiveness**

| Practice | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Prompt services | 30 | 2 | 5 | 4.40 | 0.855 |
| Willingness to help customers | 30 | 2 | 5 | 4.30 | 0.837 |
| Readiness to respond to customer request | 30 | 2 | 5 | 4.27 | 0.740 |
| Valid N (listwise) | 30 | | | | |

**4.3.6 Assurance**

It was important to determine to what extent, the following practices are applied in those organizations; employees being consistently courteous and delivering services as promised. The findings on table 12, indicate that banks practice assurance to customers to a large extent. However developing strategies to meet customer expectations with a high mean of 4.07 was most common followed by consistently courteous employees with a mean of 4.03. Respondents who said that their staff is more consistently courteous concurred more with a lesser standard deviation of 0.890 as of those who meet customer expectations. All the same both standard deviations show high clustering about the mean.

**Table 12: Assurance**

| Practice | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Develop Strategies To Meet Customer Expectations | 30 | 2 | 5 | 4.07 | 0.944 |
| Consistently Courteous employees | 30 | 2 | 5 | 4.03 | 0.890 |
| Valid N (listwise) | 30 | | | | |

### 4.3.7 Empathy

The respondents were required to indicate the extent, to which they keep records and give customers individualized attention.

The findings below illustrates that, the banks practice empathy to a large extent. Most banks however keep records more as it has the highest mean of 4.33. Respondents who keep record are also more consistent in their response as their standard deviation is more near to zero than those who give individualized attention to their customers.

**Table 13: Empathy**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Keep records | 30 | 3 | 5 | 4.33 | 0.606 |
| Individualized attention | 30 | 2 | 5 | 4.23 | 0.774 |
| Valid N (listwise) | 30 | | | | |

### 4.3.8 Satisfaction Strategies

The satisfaction strategies were also tested as key aspect of customer retention. Various attributes were presented and the respondents asked to indicate the extent, to which they make use of them. The results presented on the table 13 below show that, banks are more committed to satisfying customer as it has a greater mean of 4.17, followed by conducting satisfaction survey with a mean of 3.38 which is practiced to some extent. Establish switching cost mechanism is least popular with a mean score of 3.23. All the standard deviations are consistent apart from the one for lost customer analysis 1.179, meaning the respondents differed in their responses.

**Table 14: Customer Satisfaction**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Commitment to satisfy customer | 30 | 2 | 5 | 4.17 | 0.791 |
| Customer satisfaction survey_ | 30 | 2 | 5 | 3.80 | 0.847 |
| Lostfcustomer analysis | 30 | 1 | 5 | 3.30 | 1.179 |
| Switching cost mechanism | 30 | 1 | 5 | 3.23 | 0.971 |
| IvalidJM (listwise) | 30 | | | | |

### 4.3.9 Loyalty Strategies

The various attributes used in the questionnaire to determine whether organizations make use of loyalty strategies are; having a loyalty program, rewarding loyal customers, performing lost customer analysis and tracking company's loyal customer. The results are presented in the Table below.

**Table 15: Loyalty strategies**

| Practice | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Track company's loyal customer | 30 | 2 | 5 | 4.07 | 0.868 |
| Have loyalty program | 30 | 2 | 5 | 3.47 | 1.008 |
| Understand customer resistance to switch | 30 | 1 | 5 | 3.40 | 1.102 |
| Reward loyal customer's | 30 | 1 | 5 | 3.30 | 1.088 |
| Valid N (listwise) | 30 | | | | |

As it can be seen in table 15, most banks track company's loyal customers to a large extent, which is illustrated with the highest mean of 4.07 and with the lowest standard deviation of 0.868 indicating consistency in the response, followed by loyalty program which is practiced to some extent (3.47). The lowest mean of 3.30 indicates most banks reward loyal customers the least. Apart from tracking of company's loyal customers, the rest of the practices have a significant standard deviation of greater than one indicating that respondents do not quite concur with each other.

### 4.3.10 Complaints Handling Process

How organizations handle complaints was a major concern in this study. The respondents were required to indicate the extent, to which their organization practice the following; having a well executed handling process, staff understand the complaints procedure, have a single point of contact for complaints, document complaints, empower employees to deal with complaints, provide speedy response to complaints and have ease access of complaints data. The findings presented on the table 15 below indicate that, speedy response to complaints was practiced to a large extent with a mean of 4.17, followed by well-executed complaint handling process with 4.10. Most banks do not make it easy to access complaints data since it had the lowest mean of 3.50 and the standard deviation of less than 1 showed a high level of agreement.

Respondents who said that their banks check on customer after resolutions did not concur with each other as the standard deviation of 1.073 indicated a low level of agreement.

**Table 16: Complaint handling process**

| practice | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Speedy response to complaints | 30 | 2 | 5 | 4.17 | 0.699 |
| Well executed complaint handling process | 30 | 2 | 5 | 4.10 | 0.759 |
| Staff understand complaints procedure | 30 | 2 | 5 | 4.00 | 0.830 |
| Empower employees to deal with complaints | 30 | 2 | 5 | 3.93 | 0.980 |
| Document complaints | 30 | 2 | 5 | 3.87 | 0.860 |
| Have a single point for complains | 30 | 2 | 5 | 3.77 | 0.935 |
| Check on customer after resolution | 30 | 2 | 5 | 3.57 | 1.073 |
| Easy access to complaints data | 30 | 2 | 5 | 3.50 | 0.938 |
| Valid N (listwise) | 30 | | | | |

## 4.4 Importance of the customer retention practices

The researcher also required respondents to indicate how important each of the practice they chose was in retaining customers in their banks. . The researcher's analysis is that factors that scored between 4.0-4.9 are important, between 3.0-3.9 are somewhat important, and between 2.0-2.9 are not important and so on.

Table 16 below represents results from all responses. It can be deduced that most of the practices had a mean ranging from 4.0-4.9 (important), these practices represents those that are viewed as effective in retaining customers, the most popular were some aspects from service quality strategies which are, willingness to help customers with the highest mean of followed by individualized attention to customers with a mean of 4.50. Both had standard deviations that were very near to zero indicating a high level of agreement from respondents.

**Table 17: Importance of the retention practices**

| Practice | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Willingness to help customers | 30 | 4 | 5 | 4.53 | 0.507 |
| Individualized attention to customers | 30 | 3 | 5 | 4.50 | 0.572 |
| Readiness respond to request | 30 | 3 | 5 | 4.43 | 0.679 |
| Service right first time | 30 | 3 | 5 | 4.43 | 0.568 |
| Prompt service | 30 | 3 | 5 | 4.37 | 0.556 |
| Commitment to Satisfy Customer | 30 | 3 | 5 | 4.33 | 0.661 |
| Speedy Response to complaints | 30 | 3 | 5 | 4.33 | 0.661 |
| Specific goals for CR are established | 30 | 3 | 5 | 4.30 | 0.651 |
| Consistently courteous employees | 30 | 3 | 5 | 4.30 | 0.651 |
| Develop CR strategies | 30 | 3 | 5 | 4.27 | 0.583 |
| Keep Record | 30 | 3 | 5 | 4.27 | 0.640 |
| Providing services at Promised Time | 30 | 3 | 5 | 4.27 | 0.640 |
| Single contact point complaints | 30 | 2 | 5 | 4.27 | 0.868 |
| Complaint Handling Process | 30 | 3 | 5 | 4.23 | 0.728 |
| Develop Strategies to meet Customers expectations | 30 | 3 | 5 | 4.20 | 0.664 |
| Document Complaints | 30 | 3 | 5 | 4.20 | 0.714 |
| Customer Satisfaction Survey | 30 | 2 | 5 | 4.17 | 0.950 |
| Empower Employee to deal with complaint | 30 | 3 | 5 | 4.17 | 0.699 |
| Staff Understand Complaint Procedure | 30 | 3 | 5 | 4.17 | 0.648 |
| Easy access of complaints data | 30 | 2 | 5 | 4.03 | 0.765 |
| Nominated someone for CR | 30 | 3 | 5 | 4.00 | 0.830 |
| Check customer after resolution | 30 | 2 | 5 | 4.00 | 0.871 |
| Measuring CR | 30 | 2 | 5 | 4.00 | 0.871 |
| Understand Resist To Switch | 30 | 1 | 5 | 3.93 | 1.081 |
| Reward Loyal Customer | 30 | 1 | 5 | 3.90 | 0.923 |
| Track Loyal Customers | 30 | 3 | 5 | 3.90 | 0.662 |
| Establish Switch Cost Mechanism | 30 | 1 | 5 | 3.87 | 1.074 |
| Have Loyalty Program | 30 | 1 | 5 | 3.80 | 1.064 |
| Lost Customer Analysis | 30 | 2 | 5 | 3.77 | 0.971 |
| Valid N (listwise) | 30 | | | | |

The least popular were the loyalty strategies with a range of 3.0-3.9 mean, these were considered as somewhat important, in retaining customers. Their standard deviations were consistent apart from having loyalty program and understanding resistance to switch which had a standard deviation greater than 1. The customer satisfaction strategies were all considered important and their standard deviations indicated high levels of agreement. Complaint handling process was also considered important apart from one aspect, which is establishing switching cost mechanism rated as being somewhat important in achieving customer retention. Respondents also stated that closure confirmation, allowing customers to talk to managers, having suggestion boxes, email communication as well as sending thank you letters and seasonal greetings cards to customers were also important practices in retention.

In section c, the respondents were asked to advice the banking sector regarding customer retention in general, the respondents gave the following suggestions; treating every customer as vital, continuously being innovative, practice relationship management instead of transaction management, adopting and training young college graduates and nurturing them until retirement and finally promising to customers only what the company can offer depending on its ability and resources.

# CHAPTER FIVE
# DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter summarizes the findings of the study. Just to recap, the study had two objectives, one is to determine the customer retention strategies used by commercial banks in Kenya and two, is to establish the extent to which the adopted strategies have supported retention. To achieve this, a survey study was done using a questionnaire. The chapter provides an interpretation of the results by comparing them to the theoretical background presented in the literature review. Limitations of the study and suggestions for further research have also been highlighted.

## 5.2 Discussion

The first objective was to determine the customer retention strategies used by commercial banks in Kenya and how effective these have been in retaining customers. This chapter summarizes the findings of the study. Success in retaining customers, according to Reichheld, is attributed to a combination of strategies being pursued such as: Define and measure retention; Looking for loyalty in the right places with a focus of getting the "right" customers and not just a lot of them; Changing the channels of distribution; Minimizing adverse selection of customers through creative filtering; Rewarding the sales force for retaining customers, not just winning new customers; Paying for continuity, not just conquests, and this may involve using coupons or vouchers to discriminate and reward customers that re-buy; Designing special; programmes to attract and hold the most valuable customers.

Zeithaml and Bitner (1996) defined service quality as the way in which the whole service experience is performed, and failure to provide reliable service may result in customer dissatisfaction and possible defection. The findings established that the banking sector tried to retain customers to a large extent through provision of quality service. There are five determinants of service quality which include reliability, responsiveness, assurance, empathy and tangibles in that order (Kotler, 1999). This study examined some of these service quality aspects and deduced the following;

The banking sector provided reliable services by delivering them right the first time and at the promised time. Bond et al (2002) explains reliability as the ability to perform the promised services dependably and accurately. The findings demonstrate that the banking sector provides reliable services. Kotler (1999) defines responsiveness: as the willingness to help customers and to provide prompt services. The results indicate that banks were responsive to their customers through offering prompt services, their willingness to help and their readiness to respond to request. In other words banks provide appropriate information to customers when a problem occurs, have mechanism to handle returns and provide necessary guarantees.

According to (Bond et al, 2002) assurance is the knowledge and courtesy of employees and their ability to convey trust and confidence. From the findings it can be seen that banks conveyed trust and confidence in their customers by: company employees being consistently courteous, and developing strategies to meet customer's expectations. Kotler (1999) defines empathy as the provision of caring, individualized attention to customers. The results show that firms empathized with their customers by giving their customers individualized attention and keeping records on complaints.

Kotler (1999) defines customer satisfaction as a person's feelings of pleasure or disappointment resulting from comparing a products perceived performance in relation to his or her expectations. The study indicated that firms enhanced customer satisfaction by; performing lost customer analysis, customer satisfaction survey, establishing customer switching cost mechanism and nominating someone to deal or head customer retention.
Suhartanto et al (2001) defines a loyal customer as one who continues to repurchase from the same service provider whenever possible, continues to recommend others and also maintains a positive attitude towards the service provider. The findings indicated that banks enhanced customer loyalty to some extent by keeping a record of company's loyal customers, having a loyalty program, rewarding loyal customers and understanding customer's resistance to

switch to competitors product. The extent to which these are practiced was to a lesser extent than the rest of the variables, this is also seen when the respondents rate their impact in retaining customers, since they score the least.

Smith et al (1999) and Stauss et al (2004) state that there are some indications that a well-executed complaints-handling process is of strategic relevance because it can have a positive effect on customer retention. From the findings we can also deduce that the banks ensured that they have a well executed complaints handling process, document complaints, they have a single point of contact for complaints, empower employees to deal with complaints, provide a speedy response to complaints, their staff try to understand the complaints procedure, they have a procedure to check with customer after resolution and they also make it possible to access complaints data.

## 5.3 Conclusion

From this study it can be seen that customer retention is rapidly gaining acceptance as a key to business success in the banking industry. In today's world, competitors have become more sophisticated right from the product inception to the final stage especially because of working with consumers in order to deliver a product or service that is customer oriented. The growth in mobile technology has pushed the banking industries to be more innovative, this has also lead to collaboration of some companies like Safaricom (mobile service provider) and Equity bank in their M-Kesho product. Companies spend large sums of money advertising in order to acquire more customers, and they are now keener on retaining these new clients, as customer retention is the key to reducing costs and especially in the banking industry where longevity may mean profitability from a single customer.

This research has tried to empirically determine the different strategies used by banks in Kenya in retaining customers. Judging from the results of this study, it can be seen that all the aspects of service quality are practiced to a large extent. It can then be concluded that service quality is the most important factor in retaining customers. The loyalty strategies were the least practiced and the least important, this then implies a need for application of loyalty strategies. Terry et al (1998) states that losing one dissatisfied customer may be more severe than it sounds; one dissatisfied customer may speak to as many as nine others, multiplying his/her dissatisfaction nine fold.

Service quality although being the most popular, it can not exist alone, other strategies such as customer satisfaction, customer loyalty and complaint handling systems seems to play a significant role in retaining customers as well.

## 5.4 Recommendation.

This study clearly indicates that all the players in the industry are competing against each other in order to retain customers, this is evident because most respondent are making use of the customer retention practices. However, there are other practices highlighted by authors in the literature review of this study as being important in customer retention that are used less by the banks. These practices include; establishing switching cost mechanism, rewarding loyal customers, establishing specific goals for customer retention and appointing someone to head customer retention. Due to increased competition in the industry, these practices should be more emphasized.

The banks should also conduct lost customer analysis to find out customers who have switched to another supplier to learn why this happened. Reichheld (1996) suggested that customer satisfaction programs are important tools that can increase profits by preventing customers from defecting. Banks should also undertake periodic customer surveys.

## 5.5 Suggestions for Further Research

The study proposed a qualitative study to further understand why the banks are using the loyalty strategies less. The authors in the literature review of this study have highlighted the importance of these practices in retaining customer. Kotler and Amstrong (2001) even describe retention as a link between customer satisfaction and loyalty. It will be of great importance to know why these practices are not fully utilized. It would also be interesting to know the extent to which banks are practicing employee retention, as this is also key to customer retention.

## 5.6 Limitations

The researcher experienced problems on finding decision makers. As such the data collected may not present in some cases the original ideas as would have been put forward by the decision makers. In other cases, there was no one available to fill the questionnaires hence most of the questionnaires were returned. Most students conducted their study on Kenya commercial banks and as a result it was difficult to get respondents to fill more questionnaires as they claimed to already have filled others.

Given differences based on bank ownership and country of origin the practices will also vary. These aspects were not captured in the study. Again, 14 banks did not respond and these would probably have offered useful insights into the issue being researched. Finally, the common limitations of inadequate time and budgetary constraints were encountered in the course of conducting the study.

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# APPENDICES

## APPENDIX 1: LETTER OF INTRODUCTION

MWAI VERONICA KIRIGO
C/O MBA OFFICE
SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI,
P.O. BOX 30197
NAIROBI.

27th AUGUST 2010.

Dear Respondent,

**RE: <u>COLLECTION OF RESEARCH DATA:</u>**

I am a postgraduate student at school of business, university of Nairobi. In order to fulfill the requirements of attaining Master of Business Administration Degree, I am undertaking a management research project on "Customer Retention strategies applied by Commercial Banks in Kenya".

I kindly request you to participate as one of the respondents for an interview to assist me in data collection. The information is for academic purpose only and will be treated with strict confidentiality. Upon request, a copy of the final report will be made available to you.

Thank you for your cooperation
Yours Faithfully,

Veronica K. Mwai
Student, MBA

Ms. Catherine Ngahu,
Supervisor, University,
of Nairobi.

**APPENDIX 2: LIST OF BANKS**

| No. | Name of Bank | No. | Name of Bank |
|---|---|---|---|
| 1. | African Banking Corporation Ltd | 24. | Guardian Bank Ltd |
| 2. | Bank of Africa Kenya Ltd | 25 | Gulf Development Bank |
| 3. | Bank ofBaroda(K) Ltd | 26. | Habib Bank Ltd |
| 4. | Barclays Bank of Kenya Ltd | 27. | Habib Bank AG Zurich |
| 5 | CFC Bank Ltd | 28. | Housing Finance Ltd |
| 6. | Chase Bank (K) Ltd | 29. | Imperial Bank Ltd |
| 7. | Citibank N.A Kenya | 30. | Investment & Mortgages Bank Ltd |
| 8. | City Bank Finance Bank Ltd | 31. | K-Rep Bank Ltd |
| 9. | Co-operative Bank of Kenya Ltd | 32. | Kenya Commercial Bank Ltd |
| 10. | Commercial Bank of Africa Ltd | 33. | Middle East Bank (K) Ltd |
| 11. | Consolidated Bank of Kenya Ltd | 34. | National Bank of Kenya Ltd |
| 12. | Credit Bank Ltd | 35. | National Industrial Credit Bank Ltd |
| 13. | Development Bank of Kenya Ltd | 36. | Oriental Commercial Bank Ltd |
| 14. | Diamond trust bank (K) Ltd | 37. | Paramount Universal Bank Ltd |
| 15. | Dubai Bank Kenya Ltd | 38. | Prime Bank Ltd |
| 16. | East Africa Building Society | 39. | Prime Capital & Credit Ltd |
| 17. | Equatorial Commercial Bank Ltd | 40. | Southern Credit Banking Corporation Ltd |
| 18. | Equity Bank Ltd | 41. | Stanbic Bank Kenya Ltd |
| 19. | Family Finance Building Society | 42. | Standard Chartered Bank (K) Ltd |
| 20. | Fidelity Commercial Bank Ltd | 43. | Trans-National Bank Ltd |
| 21. | Fina Bank Ltd | 44. | Victoria Commercial Bank Ltd |
| 22. | First American Bank | | |
| 23. | Giro Commercial Bank Ltd | | |

**Source: Central Bank of Kenya, January (2010)**

**APPENDIX 3: QUESTIONNAIRE:**

The information you provide in the questionnaire will be treated confidentially and will not be used for any purpose other than academic. The questions have been set in relation to the study.

**SECTION A**

1. Name of the Bank_____________________________________________(optional)

2. Year of Incorporation (tick appropriately)

a) 1850-1900 [ ]   b)1901-1950 [ ]   c)1951-2009 [ ]

3 How long have you been working with the bank?

Less than 1 year [ ]   1 - 2 years [ ]   3 - 5 years [ ]   above 5 years [ ]

3. Ownership structure

- a) Privately owned (local) [ ]
- b) Government owned [ ]
- c) Both Government & privately owned [ ]
- d) Foreign owned [ ]
- e) Both foreign and locally owned [ ]

4. Number of Branches?   1-10 [ ]   11 - 20 [ ]   Over 21 branches [ ]

5. Please indicate the number of employees your company has:

- a) Below 1500 [ ]
- b) Between 1501 -3000 [ ]
- c) Between 3001 -6000 [ ]
- d) Over 6000 [ ]

6. Scope of operation

- a) local (within Kenya) [ ]
- b) Regional (within East Africa) [ ]
- c) Global (Africa & beyond [ ]

**SECTION B**

7. The following are some of the customer retention practices applied in organizations. Please indicate the extent to which your organization has implemented these practices

on a scale of **1**-5 where; **5 = Very large extent, 4= Large extent, 3= To some extent, 1= A small extent**

| Practice | **5 Very large extent** | **4 Large extent** | **3 To some extent** | **2 A small extent** | **1 To no extent** |
|---|---|---|---|---|---|
| Developing customer retention strategies | | | | | |
| Specific goals for customer retention have been established | | | | | |
| Nominated someone to deal with customer retention | | | | | |
| Measure customer retention | | | | | |
| Providing services at the promised time | | | | | |
| Readiness to respond to customers request | | | | | |
| Give customers individualized attention | | | | | |
| Provide service right the first time | | | | | |
| Keeping records | | | | | |
| Willingness to help customers | | | | | |
| Prompt service to customer | | | | | |
| Tracking of company's loyal customer | | | | | |
| Having loyalty program | | | | | |
| Reward loyal customer | | | | | |
| Perform lost customer analysis | | | | | |
| Understand customer resistance to switch to competitors product | | | | | |
| Develop strategies to meet customers expectations | | | | | |
| Employees are consistently courteous | | | | | |
| Customer satisfaction survey | | | | | |
| Establish switching cost mechanism | | | | | |
| Commitment to satisfy customers | | | | | |
| Well executed complaints handling process | | | | | |
| Document complaints | | | | | |
| Have a single point of contact for complaints | | | | | |
| Empower employees to deal with complaints | | | | | |

| **Practice** | 5 **Very large extent** | 4 **Large extent** | 3 **To some extent** | 2 **A small extent** | 1 **To no extent** |
|---|---|---|---|---|---|
| **Provide a** speedy response to complaints | | | | | |
| ^ **our statf** understand the complaints **procedure** | | | | | |
| **Have** procedure to check with customer **after resolution** | | | | | |
| **Lasy of** access of the complaints data | | | | | |
| **List any other Practice(s) you use and rate it on the scale** | | | | | |
| **aj** | | | | | |
| **b)** | | | | | |
| c) | | | | | |
| d) | | | | | |

8. Please indicate how important the following practices have been in retaining customers on a scale of **1**-5 **where; 5= very important, 4= important, 3= somewhat important, 2 = not important, 1= not important at all**

| Practice | **5 Very important** | **4 Important** | **3 Somewhat Important** | **2 Not important** | **1 Not important at all** |
|---|---|---|---|---|---|
| Developing customer retention strategies | | | | | |
| Specific goals for customer retention have been established | | | | | |
| Nominated someone to deal with customer retention | | | | | |
| Measure customer retention | | | | | |
| Providing services at the promised time | | | | | |
| Readiness to respond to customers request | | | | | |
| Give customers individualized attention | | | | | |
| Provide service right the first time | | | | | |
| Keeping records | | | | | |
| Willingness to help customers | | | | | |
| Prompt service to customer | | | | | |
| Tracking of company's loyal customer | | | | | |

| Practice | 5 Very important | 4 Important | 3 Somewhat Important | 2 Not important | 1 Not important at all |
|---|---|---|---|---|---|
| Having loyalty program | | | | | |
| Reward loyal customer | | | | | |
| Perform lost customer analysis | | | | | |
| Understand customer resistance to switch to competitors product | | | | | |
| Develop strategies to meet customers expectations | | | | | |
| Employees are consistently courteous | | | | | |
| Customer satisfaction survey | | | | | |
| Establish switching cost mechanism | | | | | |
| Commitment to satisfy customers | | | | | |
| Well executed complaints handling process | | | | | |
| Document complaints | | | | | |
| Have a single point of contact for complaints | | | | | |
| Empower employees to deal with complaints | | | | | |
| Provide a speedy response to complaints | | | | | |
| Your staff understand the complaints procedure | | | | | |
| Have procedure to check with customer after resolution | | | | | |
| Easy of access of the complaints data | | | | | |
| **Refer to the Practice(s) you listed in Question 7 and rate** | | | | | |
| a) | | | | | |
| b) | | | | | |
| c) | | | | | |
| d) | | | | | |

**SECTION C**

11. With your experience, what advise would you give to the banking sector in general concerning customer retention?

**Thank you for your Co-operation.**