

**AN EVALUATION OF THE STRATEGIES USED BY BANKING  
INDUSTRY TO RETAIN ITS CUSTOMERS: A CASE OF KENYA  
COMMERCIAL BANK LIMITED.**

BY  
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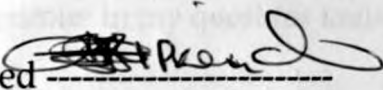
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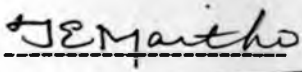
## DECLARATION

This Research Project is my original work and has not been submitted for a degree in any other University.

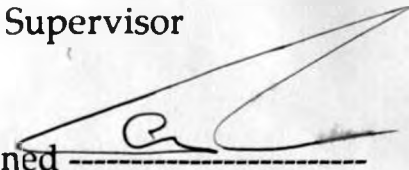
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## **DEDICATION**

**This research report is especially dedicated to my husband Stephen and children Andrew, Zena and Agatha for their constant support and encouragement throughout my studies.**

**I cannot forget my parents for their words of wisdom and counsel that have been the cornerstone in my quest for knowledge.**

## **ACKNOWLEDGMENTS**

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**Last but not least, I would like to thank God the almighty through whom all things are possible.**

## ABSTRACT

Fast-changing global business environment has resulted in organizations having to change their business strategies and processes so as to remain competitive. As organizations try to explore new markets and expand their business operations, they are faced with challenges posed by new entrants in the market who are deploying more efficient technologies, hence the need for organizations to try and retain existing customer base.

This study aimed at evaluating the customer retention strategies used in the banking industry with a critical look at Kenya Commercial Bank Ltd (KCB). The research sought to evaluate whether KCB had a formal documented strategy on customer retention and the various strategies the bank applied in ensuring that their existing customers remained loyal.

This was a descriptive study where data was collected using two sets of questionnaires; one targeting the employees and another targeting the customers. An interview was also conducted in head office where the Nairobi Region Customer Care Manager was interviewed. A total of 318 questionnaires were sent out and 265 were returned registering 83% response rate.

Findings of research indicated that KCB did not have a formal documented customer retention strategy, although one was in the pipeline. However, the research found out that despite the fact that there was no formal strategy, KCB still applied several strategies in retaining its customers and these were communicated to the staff through its core values. The first core value is putting the customer first while the another is caring for the

Community. It also emphasized on employees issues through the value of working together as a team.

It was found that KCB was strong on pricing strategy, where 86% of customers indicated that KCB charges fairly for their services, wide branch network also came out strongly where customers indicated that the fact that they were able to transact across the region makes them stay in KCB. Corporate Image was also a strong factor in that KCB has given a lot back to the community through its corporate social responsibilities activities under the cover of KCB Foundation. KCB was however challenged with service quality, communication with customers, competitiveness and lack of documented customer retention strategy.

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## **ABBREVIATIONS**

|                  |  |
|------------------|--|
| <b>ATM</b>       | <b>Automated Teller Machine</b>                  |
| <b>BBK</b>       | <b>Barclays Bank of Kenya Limited</b>            |
| <b>CBK</b>       | <b>Central Bank of Kenya</b>                     |
| <b>COYA</b>      | <b>Company of the Year Award</b>                 |
| <b>CRS</b>       | <b>Corporate Social Responsibilities</b>         |
| <b>IT</b>        | <b>Information Technology</b>                    |
| <b>KCB</b>       | <b>Kenya Commercial Bank Limited</b>             |
| <b>KCB (T)</b>   | <b>Kenya Commercial Bank Tanzania limited</b>    |
| <b>KCB (U)</b>   | <b>Kenya Commercial Bank Uganda limited</b>      |
| <b>KCB (S)</b>   | <b>Kenya Commercial Bank Sudan limited</b>       |
| <b>S &amp; L</b> | <b>Savings and Loans Kenya Limited</b>           |
| <b>SACCOS</b>    | <b>Savings and Credit Co-operative Societies</b> |
| <b>SCB</b>       | <b>Standard Chartered Bank Limited</b>           |
| <b>SPSS</b>      | <b>Statistical Package for Social Sciences</b>   |
| <b>U.K</b>       | <b>United Kingdom</b>                            |

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background Information

The dramatic increase in competition among banks and financial services companies has placed new emphasis on the value of Customer Retention. The cost of creating a new customer has been estimated to be five times more than that of retaining an existing customer (Reichheld, 1996). Banks seek to achieve zero defection rates of profitable customers, to minimize the customer churn, the acquisition and subsequent loss of customers (Farquhar, 2004). According to Kotler (1997), the cost of attracting a new customer is estimated to be five times the cost of keeping a current customer happy, whereas it requires a great deal of effort to induce satisfied customers to switch away from their current suppliers of services. In addition, long-term customers may generate a positive word of mouth promotion for banks, therefore retaining a customer becomes a priority and it is imperative to predict which customers are likely to leave in order that the bank can implement strategies to keep them.

The competitiveness in the banking industry in Kenya has increased significantly in recent years due to deregulation of the industry, globalization of the market, changing of tastes and preferences of the customers and increased demand for value of money by the customers. The technology revolution has helped in the cut-throat competition. According to Beck and Fuchs (2004), e-banking technology, which involves use of Automated Teller Machines (ATM), debit cards, credit cards, mobile phone banking

and even loyalty smart cards has made banking quite accessible and affordable. In 2004, there were three major ATM networks run by Kenya commercial Bank Limited (KCB), Barclays Bank of Kenya Limited (BBK) and Standard Chartered Bank Limited (SCB), then came the independent switches, i.e. Kenswitch and Pesapoint, which are mainly supporting the small banks. Now Equity Bank and Co-operative Bank have become dreaded forces with fast growing networks of ATMs.

Since the products and services offered by banks can easily be duplicated, banks are not only competing with each other but also with other non-bank financial institutions (Hull, 2002). Recent research by Polaris Marketing Research Inc, Atlanta (2007), has shown that lost customers will simply stop using your products or services without telling you why, and that lost customers are many times more likely than happy customers to share their bad experiences with friends and colleagues. Customer retention has therefore become a very important aspect in any organization's health.

Unfortunately, most organizations have centered on attracting new customers at the expense of retaining existing ones (Kotler, 1997). The emphasis traditionally has been on making sales rather than building relationships. Today, however, many companies have recognized the importance of satisfying and retaining current customers especially in the service industry where the quality of service is what mainly differentiates you from the rest in the market. It has been indicated that companies can improve profits anywhere between 25% and 95% by reducing customers' defections by 5% (Reichheld and Sasser, 1990).

The banking industry in Kenya is a growing service industry that requires continued patronage to assure its ongoing success. Ndegwa (2007), indicated that in Kenya the growth has been fast, from the era of the market share being dominated by the three giant banks, i.e. BBK, KCB and SCB enjoying the lion share, to the current situation where banks such as Equity Bank, Co-operative Bank and other fast growing banks are threatening the status quo. Equity bank has succeeded to a large extent in recruiting more customers especially from the big banks. The liberalization of the industry by the Central Bank of Kenya (CBK) in the 1990s lead to more rigorous competition among banks for deposits and in providing services (Brownbridge and Harvey, 1998). The banks are also facing competition from Equity markets, insurance companies, illegal pyramid schemes and the Saccos, which have come up with products targeting commercial bank customers. In this view, it is therefore very hard to acquire a new customer than to retain the existing one.

Commercial Banks in Kenya, have adapted Relationship Marketing with the emphasis of retaining the customers and increasing his shopping baskets through cross selling.

KCB has been aggressive in this regard for both their retail and corporate customers.

Kenya Commercial Bank limited (KCB) is the largest bank in Kenya in terms of branch network and ATMs country wide with a total of 140 full-time branches and 140 ATMs.

Kenya Commercial Bank Ltd (KCB) is one of the oldest banks in Kenya where its history dates back to 1896 when its predecessor, the National Bank of India opened a branch in Mombasa. In 1958, the National Bank of India merged with Grindlays Bank



to form the national and Grindlays Bank. In 1970, the Kenya Government acquired a 60% shareholding in National and Grindlays Bank thus changing its name to Kenya Commercial Bank. In 1976, the Government acquired 100% of the shares to take full control of the largest commercial bank in Kenya. The government has since reduced its shareholding in the bank to the current 25% with the public owning the remaining 75%.

The major objectives of forming the bank was to provide general banking services such as current and savings accounts, loan facilities and even custody services but has since expanded its basket of products to include such services as international trade services, relationship banking, visa card services, etc.

KCB has achieved tremendous growth to emerge as a leader in Kenya's banking and financial sector. In 1970, the bank had 32 branches but has since expanded its network to the current 140 branches countrywide. Of the total outlets, 70% are located in the rural areas, with representation in all administrative districts. In order to meet the growing demand for banking services and live up to its vision of becoming a regional bank, KCB has opened fully owned subsidiaries KCB (T) in Tanzania, KCB (U) in Uganda, KCB (S) in Sudan and Savings and Loan Limited (S & L) in Kenya specializing in mortgage financing. It currently has over 650,000 accounts in its 140 branches. The bank is currently embarking on a comprehensive computer system, which will enable it to operate online as one bank one branch and provide services more efficiently.

## **1.2 Research Problem**

This section looked at the background to the problem and the statement of the problem.

### **1.2.1 Background to the Problem**

Attracting customers is a costly activity for many organizations. It involves all forms of promotional activities to make the organization get customers to serve. These promotional activities are expensive to the company and therefore organizations seek to create the best impression once the customer tries their service. Retaining a customer is not only economical but also forms another means of promoting the company through referrals. It is therefore of prime importance for an organization to put up strong measures and dedicate more effort in retaining the customers (Ansoff, 1987).

Siboe (2006), outlined that the marketing environment facing Kenyan firms has been very dynamic in that there has been a shift from stable, non-volatile predictable and less competitive environment to one that is quite volatile, unpredictable and extremely competitive one. Globalization has actually spearheaded the integration of the Kenyan economy with other world economies such that Kenya is now part of the global village.

KCB has enjoyed good performance in the recent years. KCB financial status has shown that assets grew from Ksh 78 Bn in 2005 to Ksh 92 Bn in 2006 and settled at Ksh 120 Bn in 2007, while the profits grew from Ksh 1.9 Bn in 2005 to Ksh 3.2 Bn in 2006 and settled at Ksh 4.2 Bn in 2007 (Ombok, 2007). This means that the growth on assets and profitability has been strong in the last two years, registering 18%, and 30%

growth in assets in 2005, 2006 and 2007 respectively while the growth in profitability has been 63%, and 33% for similar periods respectively. The same period has seen KCB growth in Customer deposit increase by 20% and 22% respectively.

KCB recruitment of new customers has been aggressive and has yielded an average of 48% increase in the last three years above the market growth rate of 34% (Ombok, 2007). This compared to their average of annual net increase of customer base of 18%, according to Ombok (2007), signals a major alert in the bank on the issue of Customer Retention. Market Intelligence Research in 2006 which ranked Citibank as the best bank in Kenya, while KCB as the thirteenth bank amongst 46 banks, showed that KCB had retention problems due to poor customer services, poor customer delivery and that it had a parastatal image. These problems have made customer retention task a daunting task for the customer care managers in the bank (Ombok, 2007).

The retention problem has been reiterated by top management of the bank in more than one occasion when delivering key speeches especially during the 2007 AGM where the outgoing chairman Ms Mudhune insisted that even though she was happy that during her tenure the bank had improved in its customer retention, she hoped that the incoming chairman would help steer the bank to the customer retention level of more than 80% annually. She however noted with concern that the task was big due to increased competition. (Ouma, 2008)

The current KCB's Chief Executive Officer (CEO) has also given customers top notch priority having put a huge investment on the new Information Technology (IT)

system known as T24 believing it will help increase KCB ability to not only expand its customer base into millions but also enable it increase its customer retention capabilities which was a great challenge in the current operating environment (Amish, 2008).

### **1.2.2 Statement of the Problem**

KCB vision was to be the best bank in the region. The vision was set on a platform of exceeding their customers' expectation and tremendously increasing their customer base to out do their competition. According to a Market Intelligence Survey (2006) done on the performance of the banking industry in Kenya, KCB was placed in the thirteenth position amongst 46 banks. The survey showed that KCB had customer retention problems due to poor customer service, poor customer delivery and that it had a parastatal image.

This research aimed at finding out if KCB had a formal documented strategy on customer retention and how such a strategy was communicated to the intended staff. The research also critically examined KCB customer retention strategies to find out if there are weaknesses and suggest means of correcting them.

### **1.3 Objectives of the Study**

The general objective was to evaluate the strategies KCB has used to retain its customers and whether these strategies have had positive impacts.

The specific objectives were;

- (i) To evaluate whether KCB has a documented Customer Retention Strategy

(ii) To evaluate whether it has been communicated clearly and timely to the concerned employees

(iii) To evaluate the strategies used to retain the customers

#### **1.4 Research Questions**

These research questions were guided by the objectives of study

1. Does KCB have documented appropriate customer retention strategies?
2. Does KCB clearly and timely communicate the strategies to the concerned employees?

#### **1.5 Significance of the study**

The study will help in improving banking services in both bank and non-bank financial institutions in the country and also identify changes in processes required to enhance customer retention.

#### **1.6 Justification of the study**

A lot of studies have been carried out on customer satisfaction, Service Quality, customer value and corporate image, but no attempt has been done to link these variables to Customer Retention. This study empirically aimed at investigating the chain of effects that form the pillar to customer retention in commercial banks in Kenya with a critical look at the case of KCB.

## 1.7 Scope of the Study

The study focused on the 14 branches in Nairobi of KCB and the Head Office where most programmes are managed.

## 1.8 Operational Definitions

**Customer retention/loyal:** Ability to keep customers and make them maintain their volume of purchase or increase their purchase over time.

**Customer satisfaction:** Fulfilling both the needs and the wants of the customers within the means and convenience of the customer.

**Competitive Advantage:** Doing something that is sustainable which makes an organization be ahead of the competition.

**Switching barriers:** These are factors that hinder a customer from leaving a service provider/product to another.

**Customer Attrition:** This is a slow or a rapid loss of customers to competition or substitute product or total quit of consumption of either service or product.

## 1.9 Chapter Summary

This chapter gave the introduction of the study. It also outlined the background information; statement of the problem; objectives of the study; research questions; significance of study; justification of the study; scope of the study; and operational definitions. The next chapter would review literature related to the study.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

Previous studies have identified the benefits that customer retention delivers to an organization (Reichheld and Sasser, 1996). The longer a customer stays with an organization the more utility the customer generates. This utility is an outcome of a number of factors relating to the time the customer spends with the organization, including higher initial costs of introducing and attracting a new customer, an increase in the value and number of purchases, the customer's better understanding of the organization and positive word-of-mouth promotion.

Apart from benefits that longevity of customers creates, researchers also suggest that the cost of customer retention activities is less than the costs of acquiring new customers. Kotler (1997) argues that the financial implications of attracting new customers may be five times as costly as keeping existing customers.

Beckett et al (2000) drew tentative conclusion on why consumers appear to remain loyal to the same financial provider, even though in many instances they hold less favorable views towards their service providers. Many consumers may be motivated by convenience or inertia and the high switching costs in terms of the potential sacrifice and effort involved with changing banks.

## **2.2 Customer Retention**

Retention can be defined as a commitment to continue to do business or exchange with a particular company on an ongoing basis (Zineldin, 2000). Stauss et al (2001) define retention as the customer's liking, identification, commitment, trust and willingness to recommend and repurchase intention. Customer retention implies long-term commitment on the part of the customers and the firm to maintain the relationship. Retaining old customers costs 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 actually been advocated as an easier and more reliable source of superior performance (Reichheld 1990).

Customer retention brings benefits such as employee retention and satisfaction, better service, lower cost, lower price sensitivity, positive word of mouth, higher market share, higher efficiency and higher productivity (Zineldin, 2002).

According to LeBoeuf (2000), a survey done in the New Zealand banking industry on why customers quit found the following;

- 3% of customers just move away
- 5% of customers develop other friendships
- 9% of customers leave for competitive reasons
- 14% are dissatisfied with the products
- 68% quit because of an attitude of indifference towards the customer by the bank employees.



The above survey therefore, showed that every organization should first and foremost train its employees to be more customer-centric by engaging them in comprehensive customer care trainings. To improve customer retention, firms initiate a variety of strategies including program on customer satisfaction, complaint management loyalty (Reinchheld 1996). In understanding customer retention and satisfaction, researchers have paid particular attention to management of service quality and developing strategies to meet customer expectations (parasuraman et al, 1988) and explaining the impact of service quality on profits. The return on investment to marketing for existing customers can be up to seven times more than the prospective customers (Ogilvy and Mather Direct).

A customer's decision for initial purchase decisions can be based on both tangible and intangible factors where tangible factors include performance, quality, reliability and cost, while intangible include sense of caring, courtesy, willingness to help and ability to resolve problems. LeBoeuf (2000) in his book how to win customers and keep them for life, argued that it is not enough to reward your customers with good service, but rather you have to make them aware of the good deal that they're getting for doing business with you and keep reminding them of that in many subtle different ways. For example, he suggests that a company needs to look at its business from its customers' perspective and to evaluate everything about the company that the customer sees or comes into contact with, from business communications to telephone greetings to sales and service contacts. LeBoeuf, indicated that a sure way of retaining

customers is that a company must constantly keep in touch with its customers and keep them informed at all times.

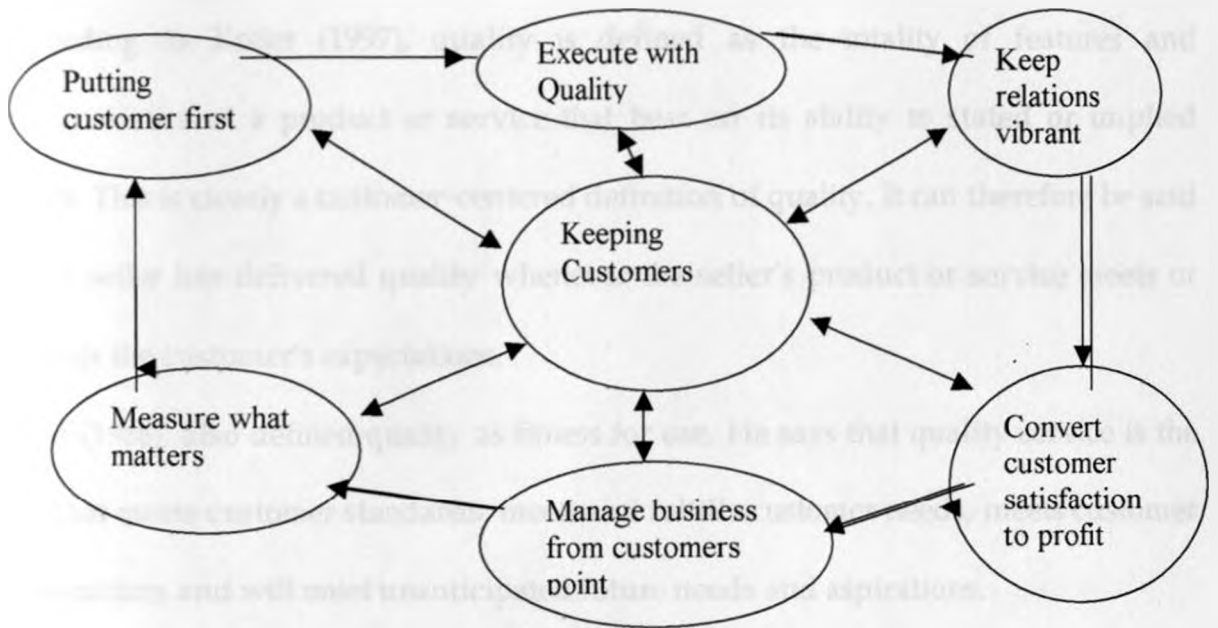
### **2.3 Customer Retention Strategies**

Pearce and Robinson (1991), define strategy as large scale, future oriented plans for interacting with the competitive environment to optimize achievement of organizational objectives.

Johnson and Scholes (2003), on the other hand defines strategy as the direction and scope of an organization over the long term which achieves advantage for the firm through it's configuration of resources within a changing environment to meet the needs of markets and fulfill stakeholders expectations. Kotler (1999) clearly outlines that companies should pay closer attention to customer defection rates and take steps to reduce. These steps he indicated include:

- i) The company must define and measure its retention rate
- ii) It must distinguish the causes of customer attrition and identify those that can be managed better
- iii) Lastly the company needs to figure out how much it would cost to reduce the defection rate.

In a service industry such as banking, the way to retain customers is to improve customer service quality and satisfaction. Keeping customers is not an end in itself but rather a means to the goal to generating profits. Establishing long-term relationships with customers increases a company's profitability along several dimensions. Sviokla and Shapiro (1993) came up with the following model of keeping customers. (Figure 1)



*Figure 1: The interlocking efforts to keep customers*  
 Source: Sviokla and Shapiro (1993)

This model indicates that in order to achieve effective customer retention, several strategies must be combined in order to build a self-reinforcing system that keeps customers longer and extract more value from them over the long term.

In another study, Ennew and Binks (1996) examined the links between customer retention/defection and service quality in the context of relationships between banks and their small business customers in the UK. Their findings supported the hypothesis that retention is influenced by service quality. They also found that trust in customer-bank relationships has the largest impact on potential defection, followed by general product features. The study however did not provide indications of the financial impacts retention had on the bank's profitability.

### 2.3.1 Service Quality Strategies

According to Kotler (1997), quality is defined as the totality of features and characteristics of a product or service that bear on its ability to stated or implied needs. This is clearly a customer-centered definition of quality. It can therefore be said that a seller has delivered quality whenever the seller's product or service meets or exceeds the customer's expectations.

Juran (1988), also defined quality as fitness for use. He says that quality service is the one that meets customer standards, meets and fulfills customer needs, meets customer expectations and will meet unanticipated future needs and aspirations.

Service quality is therefore the key to value creation and customer satisfaction, which can then lead to customer retention.

One major way to differentiate a service firm is to deliver consistent higher quality service than the competitors. The key is to meet or exceed the target customers' service quality expectations. Customers' expectations are formed by their past experiences, word of mouth and service -firm advertising, whereby after receiving the service, the customer compares the perceived service quality and the expected service. A company can achieve a strong reputation for quality service only when it consistently meets customers' service expectations.

Parasuraman et al (1990), identified five principal dimensions customers use to judge a company's service as;

1. **Tangibles-** The appearance of physical facilities, equipment, personnel and communication materials

2. **Reliability-** The ability to perform the promised service dependably and accurately.
3. **Responsiveness-** the willingness to help customers and to provide prompt service.
4. **Assurance-** The knowledge and courtesy of employees and their ability to convey trust and confidence.
5. **Empathy-** Provision of caring and individualized attention to customers.

A company must clearly define and communicate what service quality is expected and should be delivered in the organization. Service role for employees should be properly defined and reinforced. The potential causes of service role ambiguity include; No service standards, too many service standards, general service standards, poorly communicated service standards and standards unconnected to performance measurement, appraisal and reward system.

Venetis et al (2004) in their study on service quality and customer retention, building long-term relationships, found out that service quality is the most important factor in establishing long-term customer relationships and thus customer retention. It has been argued that service excellence enhances customers' inclination to buy again, to buy more, to buy other services, to become less price sensitive and to tell others about their positive experiences (Zeithaml et al, 1996). Steenkamp and Hoffman (1995) argued that both price and promotions are marketing signals for service quality and it depends on the extent to which potential and current customers rely on market

signals in evaluating service quality. In contrast several studies have shown that price has increasingly become a least attribute that consumers associate with quality (Dabholker et al, 1996).

### 2.3.2 Pricing strategies

Pricing has been defined as the economic signal that firms use to accomplish objectives and corporate strategic missions (Corey, 2002). For unregulated profit-making firms, the primary goal is generally considered to be maximizing shareholders value. However, depending on the firm and the market in which it operates, prices can be used to further a number of more specific tactical aims in support of the long-term goal.

There is a myriad of pricing strategies an organization can pursue, including cost-based, competitive-based, value-based and combination of each. The competitive-based approach can be an appropriate tool if the corporate strategy is to achieve sales objectives and /or market share and is desirable only to the extent that these goals improve the financial performance of the firm. The value-based approach on the other hand is the most effective in capturing value in earnings. The goal of this approach is to maximize the difference between the value created for the customer and the cost incurred by the firm, and to price accordingly. The banks mainly apply the competitive-based approach in order to capture the market share in a competitive environment.

The relationship between strategy and pricing should be dynamic. Any pricing strategy should influence corporate and product strategies. In developing a strategy

for a certain product line, pricing will undoubtedly have to integrate its understanding of costs, customers and competition. For example if recommended market prices are set below costs in order to remain viable in the market, the organization may implement a strategy to reduce cost of doing business. If the cost reduction is not feasible, an exit strategy may be more appropriate. Pricing therefore should have the flexibility to be able to effectively maintain this dynamic relationship with corporate strategy.

Consumers are heterogeneous in their willingness to pay for the same product or service. According to Shaffer and Zhang (2000), the reservation price of existing customers is higher than that of new customers because existing customers tend to exhibit higher switching costs and also higher brand preference for that product. Anderson and Simester (2004) suggest that price discrimination in different market segments is a good option to maximize on price. Losing a loyal customer due to overcharging is extremely costly for the firm. The emphasis on price discrimination strategies that attract switchers with lower prices has been identified to have at least four negative effects:

- i) Attracting customers with lower prices lowers the quality of customer base, reducing the firm's ability to deliver value to its customers, with the consequence of making more difficult the retention of the most interesting customers (Reichheld, 1996)
- (ii) Frequent price cuts educate customers to switch and increase their price sensitive (Jedidi et al, 1999)

(iii) Discriminatory prices make loyalists unhappy when they observe that they are penalized for being loyal (Reichheld, 1996)

(iv) Consumers can even become strategic by forgoing a purchase today to get a lower price tomorrow (Chen and Zhang, 2001).

### **2.3.3 Employee Retention strategies**

The term employee retention has been defined in many ways and a lot of times depend on the industry one is operating in. Employee retention is about keeping good people, getting compensation and benefits in line with the marketplace, presenting a consistent, effective employer proposition across the entire employee life cycle, thus ensuring the company sources, hires, manages and develops employees who partner with it in achieving its organizational goals.

According to Gorham (2002), employees are the most important assets an organization has. Organizations that strive to maximize customer retention should have a plan in place to maximize employee retention.

Schlesinger and Heskitt (1991) have demonstrated the relationship between satisfied customers and satisfied employees. They indicate that satisfied customers can tolerate higher margins that can be used to better pay employees, hence boosting employee morale, reducing employee turnover which in turn helps produce more satisfied customers.

People make an effective contribution when their efforts are recognized and rewarded. Although incentive and motivation schemes have been operated successfully in direct sales, the scheme has always targeted specific groups. A



programme, which encourages people to achieve high levels of customer satisfaction must be long-term and must involve more than the sales department. As the drive for service excellence extends throughout organizations, the need for companies to commit themselves to high levels of staff care has become apparent.

Mr. Marriot the founder of the Marriot Hotel chains has been quoted saying "How can we in service industry, make customers happy with unhappy staff?" Marriots philosophy has been "Take care of your employees and they will take care of your customers and you". The environment in which employees work in also shapes the quality of the service to customers. If a member of staff works in a draughty, ill-lit environment where information is not readily available or where equipment is below standards, service delivery can be greatly affected.

Staff members need to be trained on such aspects as product knowledge, skills, customer-focused attitudes, teamwork, empowerment, process improvement and problem solving. To create a truly customer focused organization, everyone in the company should take part in customer service training. Both front-line and support staff need to know procedures, have product knowledge and regular updates. Telephone banking service company designed two schemes to improve staff knowledge of the entire business; first is a communication programme where different parts of the business exchanged news of activities, and second, problem-solving with cross-functional teams. These schemes have helped both front-line and support staff in understanding of the organization and its customers. Skills training in customer services include;

- i) Listening and questioning skills
- ii) Assertive communication
- iii) Dealing with difficult customers
- iv) Written communication skills
- v) Teamwork
- vi) Problem-solving skills

As organizations change and new faces appear in front of customers, to some extent it is customers who will help train those new employees as everyone is bound to make mistakes as they learn their new roles and responsibilities. A customer feels secure knowing that a long-time employee whom they've worked with over many years will be there to help them again when they have a need. The loss of a valuable employee can be a major factor in the perceptions of the customers. If they liked the services of specific employees and they learn that he has just walked across to a competitor, there are high chances that, that customer is likely to follow the employee to the competitor. Compelling research from Purdue University's Krannert School of Marketing, has found a clear link between engaged employees, customer satisfaction and profitability. It has been noted that overall, employees work more productively when they have clear goals, derive value from their jobs, feel the support of their organization, enjoy a positive mental state and have the capability to do the job. Employees incentive and recognition programmes can therefore help address many of these factors by providing direction, helping employees develop relevant skills,

focusing attention on positive behaviours and giving employees the sense of task value and support that underlay motivation.

#### **2.3.4 Corporate Image strategies**

Image has been defined as perception of an organization reflected in the associations held in consumer memory (Keller, 1993). Corporate Image in service marketing literature was early identified as an important factor in the overall evaluation of service and company (Gronroos, 1988). Apart from image as a function of accumulation of consumption experience over time, most organizations also provide complex informational environments, e.g. advertising, direct marketing or public relations, in order to attract new and keep existing customers.

According to Gronroos (1988), corporate image is a filter, which influences the perception of the operation of the company. This is in line with Gummesson (1993), who stated that customer perceived quality is a function of “quality in fact and quality in perception”. People develop knowledge systems to interpret their perception of the company. Corporate image is believed to have the same characteristics as self-schema (Markus, 1997) with regard to influencing the buyers’ purchasing decisions, i.e. good corporate image stimulates purchase from one company by simplifying decision rules. In this context corporate image becomes an issue of attitudes and beliefs with regard to awareness and recognition (Aaker, 1991), customer satisfaction and consumer behaviour (Fornell, 1992). Corporate image can be an extrinsic information cue for both existing and potential buyers and may influence customer loyalty, e.g. willingness to provide positive word-of-mouth.

Corporate image is consequently assumed to have an impact on customers' choice of company when service attributes are difficult to evaluate such as in the banking industry. Corporate image is established and developed in the consumers' mind through communication and experience, hence corporate image is believed to create a halo effect on consumers' satisfaction judgment. When customers are satisfied with the services rendered, their attitude towards the company is improved. It has therefore been concluded that corporate image has a positive effect on customer retention. Fornell (1992), has indicated that corporate image is an overall evaluation of the company and is measured using three indicators; overall opinion of the company, opinion of the company's contribution to the society through its corporate social responsibilities activities and liking of the company. Barich and Kotler (1991) proposed that a company would have a strong image if customers believe that they are getting high value when they make a purchase. Accordingly, a number of factors such as quality products, quality services and reasonable prices are deemed to influence value judgment.

### **2.3.5 Switching Barriers Strategies**

Jones et al (2000) defined a switching barrier as any factor, which makes it difficult or costly for consumers to change providers. In their empirical study they examined three types of switching barriers; Strong interpersonal relationships (the strength of the personal bonds that may develop between the employees of a company and the customers), high switching costs (the customers perception of the time, money and effort associated with changing service providers) and attractiveness of alternatives,

which refers to whether viable alternatives exist in the market. Ping (1999) uses the term structural commitment as a measure of the extent to which as the customer has to remain in a relationship. Ping argues that structural commitment includes alternative attractiveness, investment in a relationship and switching costs. Fornell (1992) without proposing a formal definition of the concept, provided a list of factors that can constitute such barriers, i.e. if they are prevalent they will hinder customers to defect from a relationship. These are; search costs, transaction costs, learning costs, loyal customer discounts, customer habit, emotional cost, cognitive effort and financial, social and psychological risk.

Klemperer (1987) distinguishes between three types of switching costs. One is transaction cost incurred when the customer changes service providers. E.g. if you change banks, you have to close one account and open another with new details, entailing some efforts. The second is learning costs, suppose the new bank users other routines or other contractual rules than the first one, then you have to learn these new rules, which is a switching cost. The third is artificial switching costs and concerns what the firm does to retain customers, e.g. frequent flyer programmes or discount coupons valid for next purchase.

Hirschman (1970) makes the distinction between negative and positive switching barriers, which is between "having to be" and "wanting to be" in a relationship. "Having to be" can be seen as a negative reason to stay in a relationship or to remain a customer, while "wanting to be" in a relationship as a positive reason to stay. Jones et al (2000), in the end-discussion of their article mentioned that switching barriers could

be seen as more positive in their nature and others as more negative. High switching costs are classified as negative switching barriers whereas attractiveness of services and interpersonal relationships are classified as positive switching barriers. It has been noted that negative switching barriers are not good for customer retention in the long run. Positive switching barriers are said to have a positive effect on customer retention.

Jones et al (2000) however proposed that the relationship between satisfaction and repurchase intentions is contingent on switching barriers. He concluded in his study that negative switching barriers have negative direct effect on customer satisfaction and a positive direct effect on repurchase intentions. The positive switching barriers were indicated to have no direct positive effect on repurchase intentions but had a positive direct effect on customer satisfaction, hence enhancing customer retention.

Ping (1999) therefore concluded that it is important for an organization to distinguish between negative and positive switching barriers since the two had different effects on customer retention. He indicated that since positive switching barriers have been found to be positively correlated with customer loyalty, it was important that every organization strived to apply positive switching barriers when pursuing customers.

### **2.3.6 Competitive Perspective**

Hill and Jones (2000) have defined competitive advantage as the ability of a company to out-perform competitors within the same industry. Competitive advantage has also been defined as an advantage gained over competitors by offering consumers greater

value, either by means of lower prices or by producing greater benefits and services that justifies higher prices (Johnson and Scholes, 2002).

Porter (1990) suggested four 'generic' business strategies related to the extent to which the scope of businesses' activities is narrow versus broad and the extent to which a business seeks to differentiate its products and services. The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segment. The five forces that Porter (1990) referred to were notably; Threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitutes and intensity of rivalry. He said all these depict the state of competition in an industry.

Porter (1990) argued that competitive advantage arises out of the way in which companies organize and perform their activities. He pointed out that to gain competitive advantage over rivals, a company has two options:

- i) To provide comparable buyer value but perform activities more efficiently than the competitors (lower cost)
- ii) To perform activities in a unique way that create greater buyer value and allow a higher price (differentiation)

Kotler (2000) indicated that product and service differentiation is a way in which firms can improve their competitiveness in a crowded industry as they can draw customers towards its services. Through differentiation, buyers can perceive a significant contrast between the products or services of one company and those of others (Cravlers, 2000). Mohebi and Hechter (1993) has argued that in today's competitive

environment, banks need to keep up with current and potential customers if they are to survive, grow and continue to prosper. This has been supported by Holliday (1996), where the banking industry is vulnerable to a changing environment, e.g. loyal customers can be stolen away through an aggressive marketing campaign. Thus, product and service differentiation and marketing campaigns are important factors to sustain competitive advantage in the industry.

The homogeneity of services offered and competition within the banking industry has put added pressure on the banks to achieve competitive differentiation, which has led to an emphasis on service quality. Banks use service quality as a means of gaining competitive advantage. This practice is perceived to be a prerequisite for achieving high quality customer service, which is seen as the only mechanism for achieving differentiation and retaining customers in a highly competitive and homogenous industry (Ioanna, 2002).

Cheng et al (1997) concluded that banks should extend its product quality beyond the core service and expected service with additional and potential service features to be remembered and distinguished by customers.

### **2.3.7 Customer Satisfaction**

Kotler (1999) defined customer satisfaction as a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance in relation to his/her expectations. He further suggested that the following tools can be used for tracking and measuring customer satisfaction:



- i) **Complaint and suggestion systems-** a customer centered organization makes it easy for its customers to deliver suggestions and complaints.
- ii) **Customer Satisfaction surveys-** Responsive companies obtain a direct measure of customer satisfaction by conducting periodic surveys
- iii) **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.
- iv) **Lost Customer Analysis-** companies should contact customers who have stopped buying or who have switched to another supplier to learn why this happened.

Hentschel et al (1999) has indicated that customer satisfaction does not automatically lead to customer retention, it is however a pre-requisite. They have argued that not even satisfaction with the product protects from disloyalty; satisfied customers in particular change brands all the time. Therefore, depending on how strongly customer satisfaction and customer retention are manifest, certain influencing factors strengthen or weaken the process. Hence there must be other variables that catalyses customer satisfaction in order to lead to customer retention. Other authors are also critical towards a unidimensional viewpoint between customer satisfaction and customer retention. Stahl (1998) quotes three factors; must factors, plus factors and should factors.

- i) **Must factors** cause dissatisfaction when they do not fulfill customers expectations, they do not however lead to satisfaction when carried out

successfully. Institutions, which offer only basic services, only generate weak customer retention and have a high fluctuation rate. E.g. an ATM card for a customer when ready is put aside and the customer is notified in writing.

- ii) Plus factors do not cause dissatisfaction if they do not exist as the customer does not expect them. If they exist, the customer is surprised or even enthused. Satisfaction starts here. E.g. the bank offers to send the ATM card by post or courier.
- iii) Should factors are located between the plus factors and the must factors and create satisfaction, indifference or dissatisfaction depending on how strongly they are manifest. E.g. the bank notifies a customer immediately the ATM card is ready by e-mail or text message.

Reichheld (1996) suggested that customer satisfaction programmes are important tools that can increase profits by preventing customers from defecting. Mangnus(1998) pointed out that customer satisfaction is believed to be associated with fruitful customer behaviour from the firm's point of view. Mohamed (2000) stated that customer satisfaction is perhaps one of the most talked about challenges of organizations, both in public and in private sectors. Indeed, this represents every organization's sole purpose and is at the heart of every mission statement, is the ultimate goal of any strategies put in place.

## 2.4 Conceptual Framework

The research adopted a schematic conceptual framework to explain the relationship between the dependent and independent variables as follows;

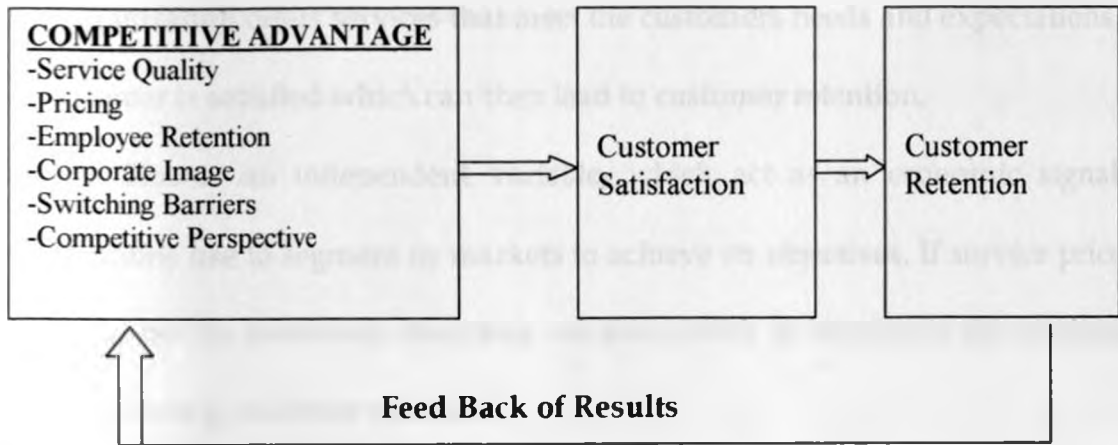


Figure 3: Relationship between dependent and independent variables

Source: Author (2008)

**Customer Retention-** This is a dependent variable that cannot stand on its own in keeping customers loyal to an organization. It depends on other variables in order to succeed. If customer retention is not achieved after applying the independent variables, then the organization should go back to the variables and re-strategize on the process. Hence this requires a good feedback mechanism on customer retention in the organization.

**Customer Satisfaction-** This is an intervening variable in that it is a go between on the variables contributing to customer retention. Hence customer satisfaction as suggested by Hensel et al (1999) does not in itself lead to customer retention but rather a pre-requisite and requires other variables that catalyses to lead to customer retention.

The following are the independent variables that if successfully implemented lead to dependent variable (customer Retention).

**Service Quality-** This is an independent variable that is key to value creation whereby if an organization offers services that meet the customers needs and expectations, then the customer is satisfied which can then lead to customer retention.

**Pricing-** This is an independent variable, which act as an economic signal that organizations use to segment its markets to achieve its objectives. If service prices are seen to be fair by customers, then they are more likely to be loyal to the organization hence enhancing customer retention.

**Employee Retention-** This is also an independent variable whereby if an organization is able to keep its good employees for long then customers are assured of reliable services since employees are able to anticipate their needs. This will lead to keeping customers satisfied hence leads to retention.

**Corporate Image-** This is customer perception of an organization. It is an independent variable in that if an organization has a good public image, then customers are proud to be associated hence remain loyal to the company.

**Switching Barrier-** This is any factor, which makes it difficult or costly for a customer to change service providers. It is an independent variable, which can make it hard for customers to change providers hence have no choice but to remain in an organization.

## 2.5 Summary of Literature Review

The literature has clearly indicated that customer retention brings benefits such as employee retention and satisfaction, better service, lower cost, lower price sensitive, positive word of mouth and higher productivity.

Dawkins and Reichheld (1990) reported that a 5% increase in customer retention generated an increase in customer net present value of between 25% and 95% across a wide range of business environments. Kotler (1997) has also indicated that the cost of attracting a new customer is estimated to be five times the cost of keeping an existing customer happy, while it required a great deal of effort to induce satisfied customers to switch away from their current service providers. In the business environment, managers are faced with a lot of challenges brought about by globalization, competition, liberalization and more informed customers. It's on the basis of these changes that firms have no alternatives but to try and retain their customers.

A number of strategies involving service quality, pricing, employee retention, Corporate Image and Customer Satisfaction have been suggested elsewhere as some of the strategies that can be used to retain customers.

However, from the literature review, no customer retention strategy has been singled out to be more superior to another. Since customers are core to every service industry, it is important for each organization to carry out its research with a view of establishing the best strategies to apply in order to maximize on customer retention.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

In Chapter Two, we found out that there existed literature gaps in the study of customer retention in Kenyan banks and hence the study objectives of understanding the strategies KCB has used to retain its customers would not be obtained from secondary data only. There was need to involve extraction of quality primary data that would be analyzed and presented to fill the literature gaps. Methodology of this study intends to expound on how this quality data would be extracted, analyzed and presented.

#### **3.2 Research Design**

This was a descriptive study that used a mixed-mode approach, i.e. a combination of qualitative and quantitative design to establish the customer retention strategies used in the banking industry in Kenya. A survey was conducted in KCB branches in Nairobi in order to establish these strategies. The study was a cross-sectional type of research where data was collected at the point in time. Structured questionnaires were delivered by hand to collect the relevant information from the respondents in order to establish the relationship between the various independent variables and the dependent variable.

### **3.3 Population Target**

This comprised of 255 KCB employees in the Nairobi branches and 123,652 customers banking in these branches. Nairobi branches were chosen for the study since Nairobi was considered to consist of a wide range of different consumers with varied tastes and preferences. That is, the market consists of the richest consumers in the society and also the poorest consumers. Therefore, the customer retention strategies applied in this market are likely to be replicated in other parts of the country.

### **3.4 Sampling Methods**

Two sampling methods were used; Stratified Random sampling and stratified convenient sampling technique. Sampling method for employees' questionnaire entailed first selection of sample size for the whole region and then prorate the sample according to the fraction that employees of individual's branch make to the total of 255 KCB employees in Nairobi Branches. Names of employees were obtained, arranged alphabetically and given sequential numbers. Then using random numbers sample was selected to fill the questionnaires until all the questionnaires had the targeted respondent. The list containing respondents expected to fill the questionnaires also contained a plan to show the respondent who would be next on line incase the intended target was unwilling or unable to fill the questionnaire.

Sampling method for customers' questionnaire entailed first selection of sample size for the whole region and then prorate the sample according to the fraction that number of customers individual branches hold over the total of 123,652 KCB

customers in Nairobi Branches. Customers were requested to fill in the questionnaires on willingness and first come first given basis. The data collectors were encouraged though that they try to recruit a member of the opposite gender to the preceding respondent's gender. They were also requested to ensure that customers fill in the questionnaire within the banking hall at their convenience but should leave the questionnaire before they leave.

### **3.4 Sample Size**

Glenn,I (1992) proposed the use of formula  $n= N/ \{1+N(e)^2\}$  in calculating the sample sizes for social science research. The n represented the sample size; N represented the population while the e represented precision level (sampling error). He came up with a table, which is depicted in appendix 3 for selecting sample sizes for different populations and precision levels at 95% level of confidence. The sample was selected from KCB's 14 branches in Nairobi. The sample size represented 114 KCB employees and 204 customers. The sampling size was selected using the table in appendix 3. The precision level expected was 7%. Sampling size for the population selected for both customers and employees have been underlined.



### 3.5 Sampling Frame

| KCB Nairobi Branches    | Population of Employees | Sample of Employees | Population of Customers | Sample of Customers |
|-------------------------|-------------------------|---------------------|-------------------------|---------------------|
| <b>CITY CENTRE ZONE</b> |                         |                     |                         |                     |
| Kipande House           | 24                      | 11                  | 12318                   | 20                  |
| Milimani                | 14                      | 6                   | 7200                    | 12                  |
| Moi Avenue              | 74                      | 32                  | 36111                   | 60                  |
| KICC                    | 10                      | 4                   | 4566                    | 8                   |
| University Way          | 11                      | 5                   | 5303                    | 8                   |
| Tom Mboya               | 8                       | 4                   | 3444                    | 6                   |
| <b>EASTERN ZONE</b>     |                         |                     |                         |                     |
| Eastleigh               | 14                      | 6                   | 7002                    | 12                  |
| Jogoo Road              | 14                      | 6                   | 6518                    | 10                  |
| Buruburu                | 6                       | 3                   | 1002                    | 2                   |
| <b>INDUSTRIAL ZONE</b>  |                         |                     |                         |                     |
| Industrial area         | 26                      | 12                  | 12607                   | 21                  |
| Mombasa Road            | 6                       | 3                   | 3135                    | 6                   |
| <b>WESTERN ZONE</b>     |                         |                     |                         |                     |
| UN Gigiri               | 10                      | 4                   | 4004                    | 6                   |
| Village Market          | 8                       | 4                   | 4112                    | 8                   |
| Sarit Centre            | 30                      | 14                  | 16330                   | 25                  |
| <b>Total</b>            | <b>255</b>              | <b>114</b>          | <b>123,652</b>          | <b>204</b>          |

*Table 1: Sampling Frame of the study*

### 3.6 Data Collection

Data was collected from KCB employees and Customers using questionnaires and Secondary sources such as Annual reports, magazines, previous research and books on the subject matter.

The data instrument that was used to collect primary data was personally administered questionnaire and an interview guide. There were two sets of

questionnaires, one targeting the employees and the other targeting the customers. The researcher also conducted an interview with the Regional Customer Care Manager situated at Head Office Kencom House. This was meant to obtain a holistic view of KCB retention strategies and their effectiveness from all the stakeholders. The format for the instrument was structured questionnaire, which mainly targeted the operations managers, customer care employees of each branch and Customers selected from these branches. An interview guide was also used to extract information from the Regional Customer Care Manager.

The questionnaires were short, containing both closed and open ended questions and were self-administered. The questionnaires were distributed through contact persons in each branch, who were given details on how to collect and distribute the questionnaires via e-mail or telephone conversation or one on one discussion with the researcher. One on one discussion was mostly used, while telephone and e-mail were second and third alternatives respectively.

### **3.7 Data Analysis Techniques**

Since this was a descriptive study, data was analyzed descriptively. The data obtained was analyzed using mean as a measure of central tendency, standard deviation to measure dispersion and frequency distribution to help in clarifying on the correlation between dependent and independent variables. The data was transported to SPSS computer software and MS Excel for analysis and more customized charts. Data has

been presented in form of tables and bar graphs. Data was analyzed based on a five Likert Scale.

In determining the reliability of the data, Cronbach's alpha was computed in the SPSS software. This was to measure consistency and stability in order to indicate how well the items in a set are positively correlated to one another.

### 3.8: Variables, Indicators and Measurement Scales.

| Variable              | Instrument Used          | Indicators   | Scale   |
|-----------------------|--------------------------|--|---------|
| Customer Satisfaction | Customers' Questionnaire | <ul style="list-style-type: none"> <li>• Repeat purchase</li> <li>• Complaint rate</li> <li>• Customer retention rate</li> </ul>   | Nominal |
|                       | Employees' Questionnaire | <ul style="list-style-type: none"> <li>• Percentage of employees who Accept or refute that customers are satisfied</li> </ul>  | Nominal |
| Service Quality       | Employees' Questionnaire | <ul style="list-style-type: none"> <li>• Rate of Communication on new products and other changes</li> <li>• Advance anticipation of customer needs</li> <li>• Speed of response to customer requests</li> <li>• Employees keeping their promises on customer requirements</li> </ul> | Ordinal |
|                       | Customers' Questionnaire | <ul style="list-style-type: none"> <li>• Frequency of Communication</li> <li>• Friendliness by employees</li> <li>• Quality of Technology</li> </ul>   | Nominal |
| Pricing               | Employees' Questionnaire | <ul style="list-style-type: none"> <li>• Interest rates on deposits</li> <li>• Charges on loans and other products</li> </ul>  | Ordinal |
|                       | Customers' Questionnaire | <ul style="list-style-type: none"> <li>• Affordability of the products and services</li> </ul>   | Nominal |
| Switching Costs       | Employees' Questionnaire | <ul style="list-style-type: none"> <li>• Level of harshness of current Costs</li> <li>• Introduction of punitive Costs</li> </ul>  | Ordinal |
| Competition           | Employees' Questionnaire | <ul style="list-style-type: none"> <li>• Level of Technological strength</li> <li>• Level of Innovativeness</li> <li>• Ability to attract key Corporate Customers</li> <li>• Ability to attract general retail customers</li> </ul>  | Nominal |

not. It was therefore found necessary to have an interview with a regional customer care manager who was more informed on policy issues of the bank.

Customer questionnaires were pre-tested with five South C residents holding bank accounts with KCB and all questions from the instrument were found to be valid.

### 3.10 Chapter Summary

This chapter gave the methodology of the study. It explained the study tool used for the research, how the sampling units were attained and how the data would be analyzed. The next chapter would present the findings mainly from the analysis of the primary data.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

#### 4.0 Introduction

This chapter will cover response rate, reliability test, demographics, analysis and interpretation of findings.

#### 4.1 Response Rate

The researcher had sent 318 questionnaires to all the selected branches. 204 questionnaires were to be filled by customers and 114 by employees. 265 questionnaires were returned which represented 177 customers and 88 employees as per table 2 registering an 83% response rate.

*Table 2: Type of Respondents*

| Type of Respondents | Number of Respondents |
|---------------------|-----------------------|
| Customers           | 177                   |
| Employees           | 88                    |
| Total               | <u>265</u>            |

The total response rate as per branches was represented by 77% of employees and 87% of customers. This is stipulated in table 3

|                     |                          |   |         |
|---------------------|--------------------------|---|---------|
|                     | Customers' Questionnaire | <ul style="list-style-type: none"> <li>• Level of Technological advancement</li> <li>• Level of competitors Innovativeness</li> <li>• Affinity for Customers to switch to competition</li> </ul>                                  | Nominal |
| Employees Retention | Employees' Questionnaire | <ul style="list-style-type: none"> <li>• Vulnerability of losing skilled employees at the Head Office to Competition</li> <li>• Frequency of losing branch employees to competition</li> <li>• Employee retention rate</li> </ul> | Ordinal |

### 3.9 Reliability and Validity tests

#### 3.9.1 Reliability tests

The research was considered reliable because the Cronbach alpha calculated using SPSS was all above 0.7. The alpha calculated from 177 customers' questionnaires was 0.7305 for two variables that measured the number of years a customer had maintained an account with KCB and number of accounts he held with KCB at the time of research. The alpha calculated from 88 employees' questionnaires was 0.7619 for six customer retention variables; service quality, pricing strategies, competitiveness, corporate image, employees' retention and switching costs

#### 3.9.2 Validity Test

Questionnaires for employees and customers were drafted and pre-tested. Employees' questionnaire was first pre-tested through telephone interview with head office employees and then three questionnaires were sent to three head office employees. The outcome was positive except for questions that were meant to establish whether KCB had a formal strategy or not. The question was found not to be valid because the employees' opinion could not establish the fact whether there was a formal strategy or

*Table 3: Respondents by Branches*

| <b>Respondents Distribution</b> |                            |                    |                            |                    |
|---------------------------------|----------------------------|--------------------|----------------------------|--------------------|
| <b>Branch</b>                   | <b>Employees</b>           |                    | <b>Customers</b>           |                    |
|                                 | <b>Questionnaires Sent</b> | <b>Respondents</b> | <b>Questionnaires sent</b> | <b>Respondents</b> |
| Buruburu                        | 3                          | 1                  | 2                          | 2                  |
| Eastleigh                       | 6                          | 4                  | 12                         | 12                 |
| Industrial area                 | 12                         | 11                 | 21                         | 17                 |
| Jogoo Road                      | 6                          | 3                  | 10                         | 9                  |
| KICC                            | 4                          | 3                  | 8                          | 8                  |
| Kipande House                   | 11                         | 9                  | 20                         | 16                 |
| Milimani                        | 6                          | 6                  | 12                         | 12                 |
| Moi Avenue                      | 32                         | 27                 | 60                         | 54                 |
| Mombasa Road                    | 3                          | 2                  | 6                          | 4                  |
| Sarit Centre                    | 14                         | 11                 | 25                         | 18                 |
| Tomboya                         | 4                          | 2                  | 6                          | 6                  |
| UN Gigiri                       | 4                          | 3                  | 6                          | 6                  |
| University Way                  | 5                          | 3                  | 8                          | 8                  |
| Village Market                  | 4                          | 3                  | 8                          | 5                  |
| <b>Total</b>                    | <b>114</b>                 | <b>88</b>          | <b>204</b>                 | <b>177</b>         |
| <b>Response Rate</b>            |                            | <b>77%</b>         |                            | <b>87%</b>         |

## 4.2 Demographics

This section looked at the gender of respondents, occupation of customers, customers' descriptive statistics and the number of years worked by employees in the bank.

### 4.2.1 Gender

The respondents represented 63% of women as compared to 37% men. This represented 99 men and 166 women. The 99 men respondents comprised of 61 customers and 38 KCB staff, while the 166 women respondents was represented by 116 customers and 50 KCB staff as shown in table 4.

*Table 4; Gender of Respondents*

|              | Customers  | Employees | Total      | Percent     |
|--------------|------------|-----------|------------|-------------|
| Male         | 61         | 38        | 99         | 37%         |
| Female       | 116        | 50        | 166        | 63%         |
| <b>Total</b> | <b>177</b> | <b>88</b> | <b>265</b> | <b>100%</b> |

#### 4.2.2 Occupation of Customers

Of the customers who responded 62% were employed, while 26% and 12% were in business or students respectively. This is shown table 5

*Table 5; Occupation of Customers*

| Customers' Occupation | Frequency  | Percent     | Cumulative Percent |
|-----------------------|------------|-------------|--------------------|
| Employed              | 109        | 62%         | 62%                |
| Business              | 46         | 26%         | 88%                |
| Students              | 22         | 12%         | 100%               |
| <b>Total</b>          | <b>177</b> | <b>100%</b> |                    |

#### 4.2.3 Customers' Descriptive Statistics

As shown in table 6, the average KCB customers have banked with KCB for an average of 5.82 years and hold at least 2 accounts.

*Table 6: Customers' Descriptive Statistics*

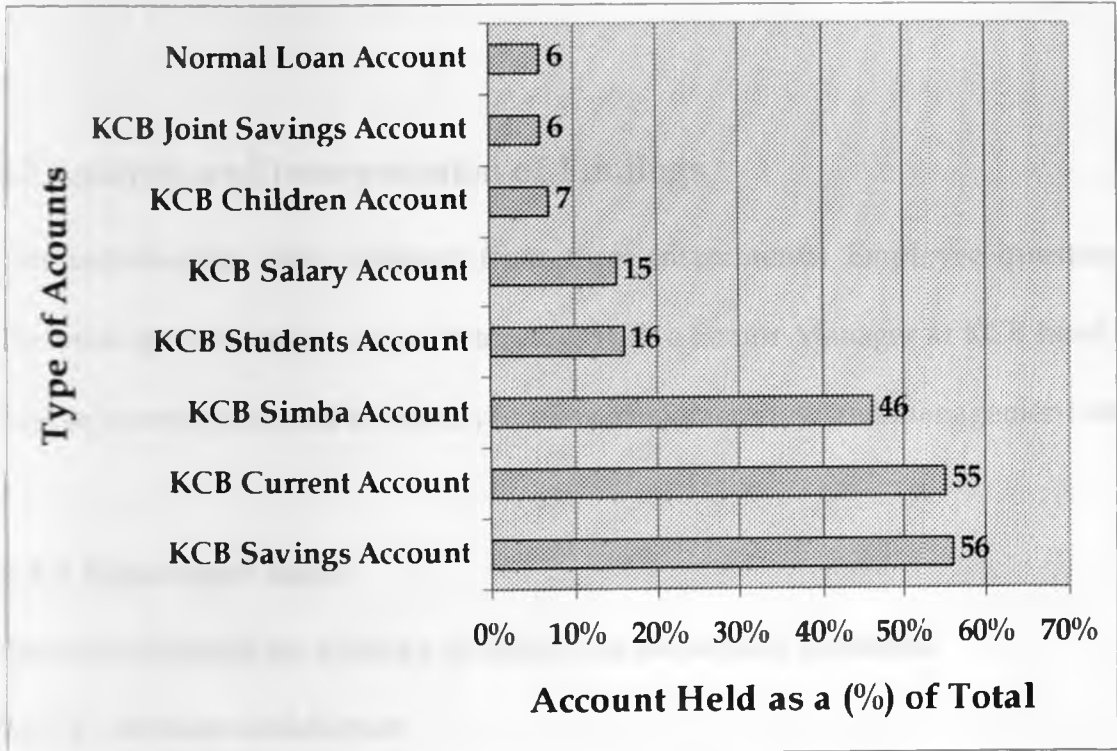
| Descriptive Statistics                               | N   | Mean | Std. Deviation | Skewness |
|--|-----|------|----------------|----------|
| Period the customer has been with KCB                | 177 | 5.82 | 4.27           | 0.71     |
| Average number of accounts held by a customer in KCB | 177 | 2.32 | 1.14           | 0.89     |

KCB savings and transaction accounts seem to be attracting most of their customers' attention. The savings accounts which come in the shape of KCB savings account, KCB Simba account, KCB Students Account, KCB Salary Account, KCB Children



Account and KCB joint savings account had attracted 56%, 46%, 16%, 15%, 7% and 6% respectively. The current account has attracted 55% while the normal loan account attracted 7%. Figure 4 gives a summary of the accounts held by KCB customers

Figure 4: Types of Accounts held by customers



#### 4.2.4 Employees: Number of Years worked

KCB seemed to be injecting new blood into their system. This is because the employees with less than 4 years in the bank formed 70% of the respondents, with 36% being between 2-4 years while 34% had worked for less than 2 years in KCB.

Refer to table 7 on the number of years worked

*Table 7: No of years worked by employees*

|              | Frequency | Percent      | Cumulative Percent |
|--------------|-----------|--------------|--------------------|
| Under 2yrs   | 30        | 34.1         | 34.1               |
| 2-4 yrs      | 32        | 36.4         | 70.5               |
| 4-8 yrs      | 6         | 6.8          | 77.3               |
| Over 8yrs    | 20        | 22.7         | 100.0              |
| <b>Total</b> | <b>88</b> | <b>100.0</b> |                    |

### 4.3 Analysis and Interpretation of Findings

This included the data obtained from three instruments; Employee questionnaire, Customer questionnaire and an Interview with a Senior Manager at KCB head office. Findings were presented as employee view, customer view and management view.

#### 4.3.1 Employees view

This will highlight the findings derived from employees' questions

##### 4.3.1.1 Customer satisfaction

KCB staff consisting 51% thought that customers were not satisfied.

The employees view on whether customers were satisfied or not are indicated on table 8.

*Table 8: Customer satisfaction view by employees*

| Customers Satisfied with Bank's Service | Frequency | Percent      | Cumulative Percent |
|---|-----------|--------------|--------------------|
| Satisfied                               | 43        | 48.9         | 48.9               |
| Not Satisfied                           | 45        | 51.1         | 100.0              |
| <b>Total</b>                            | <b>88</b> | <b>100.0</b> |                    |

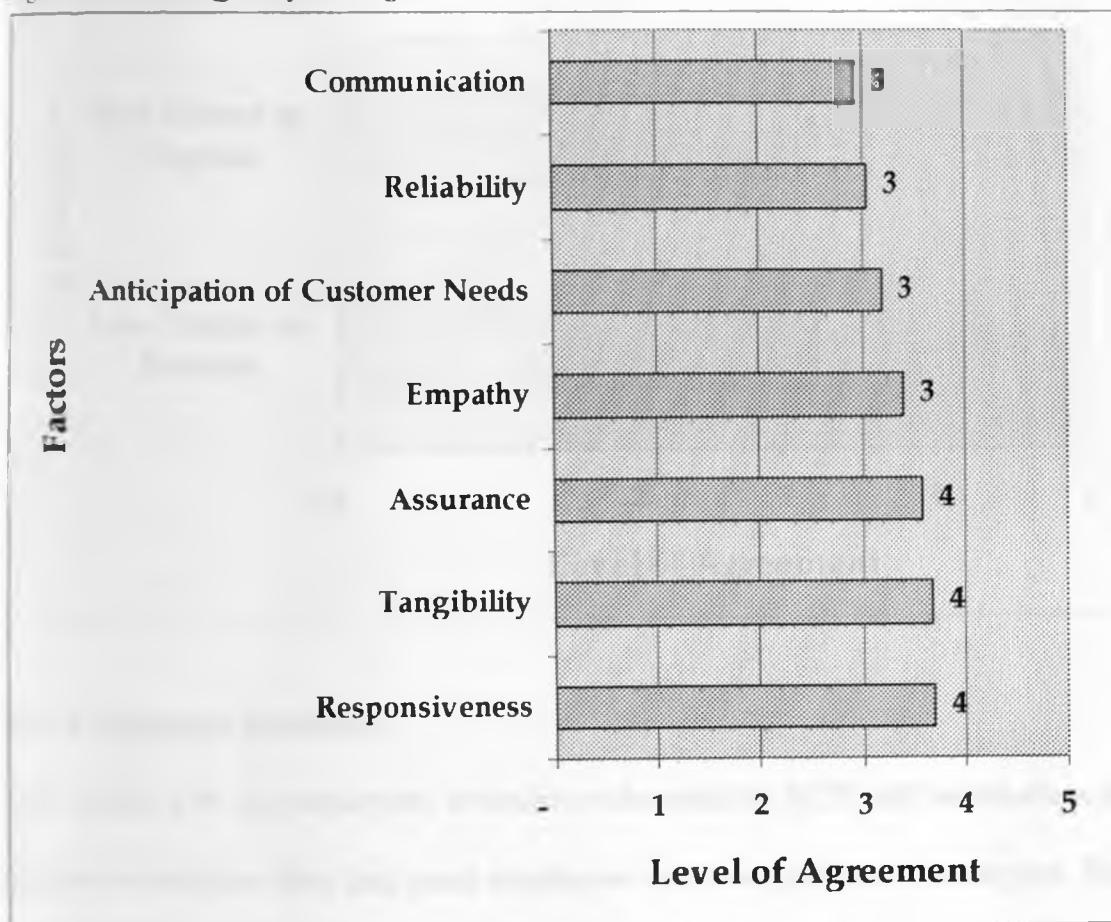
##### 4.3.1.2 Services Quality

The average score of service quality was 3.36 out of 5. This showed that most employees were unsure of their quality of services. Communication, reliability,

anticipation of customer needs and empathy scored an average of 2.93, 3.03, 3.18 and 3.4 respectively. The level at which customer serving employees felt about their service quality was disturbing. 27.3%, 25%, 36.4% and 40.9% of employees neither agreed nor disagreed that KCB were doing well in terms of communication, reliability, anticipation of customer needs and empathy to their customers. The lack of confidence on their service quality was largely affected by having too many customers and not the technology to handle them. In a branch like Moi Avenue where the customer traffic was very high, it was difficult for these attendants to commit to aggressive communication strategies, reliable service, show care to their customers and anticipate their needs. These services were mostly value adding services and not core operations services and when customer traffic would be overwhelming, value adding services and strategic thinking mostly got compromised by routine operational activities.

It was good however to note that three areas of service quality scored better. These comprised tangibility, assurance and responsiveness scoring average of 3.69, 3.6 and 3.7 respectively. Employees who agreed to a large extent that KCB had captivating banking halls and that their staffs were smartly dressed were 56%, while the employees who agreed to a large extent that KCB staffs were knowledgeable and trusted by their customers to always deliver exceptional services when called upon were 44%. Of the employees 37% agreed to a large extent that KCB staff members were always willing to respond to the customers need promptly. These services quality strategies are stipulated in figure 5.

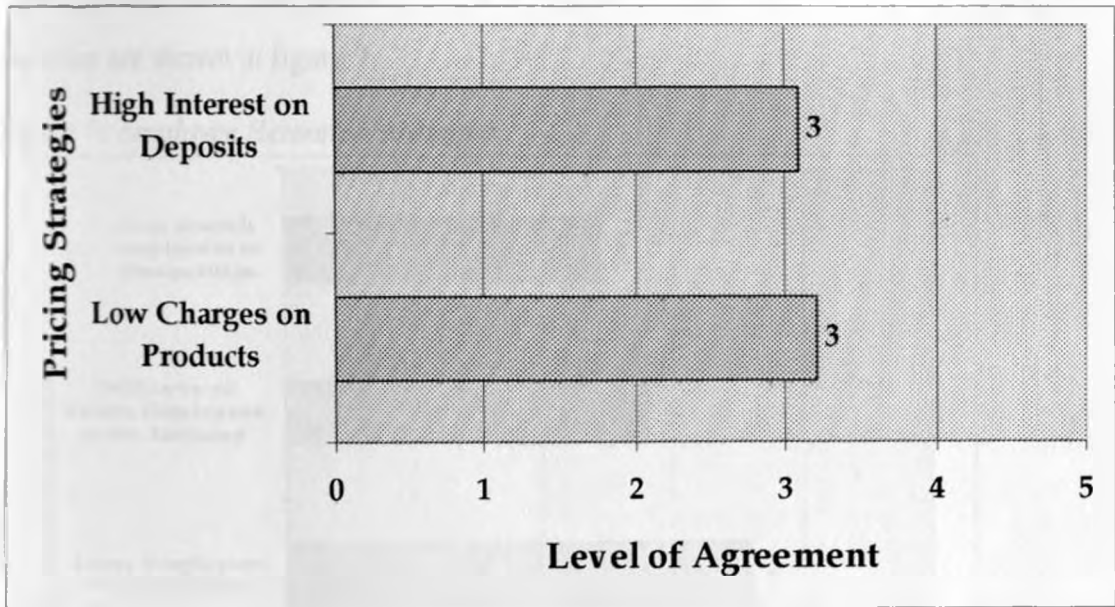
Figure 5: Service Quality strategies



#### 4.3.1.3 Pricing

The pricing in KCB scored 3.14 out of 5. KCB staff members were unsure of the strength of KCB pricing policies with 28% and 33% neither agreeing nor disagreeing that KCB offered high interests on deposits and low commissions and charges on loans and other products. Figure 6 indicates the pricing strategies.

Figure 6: Pricing strategies

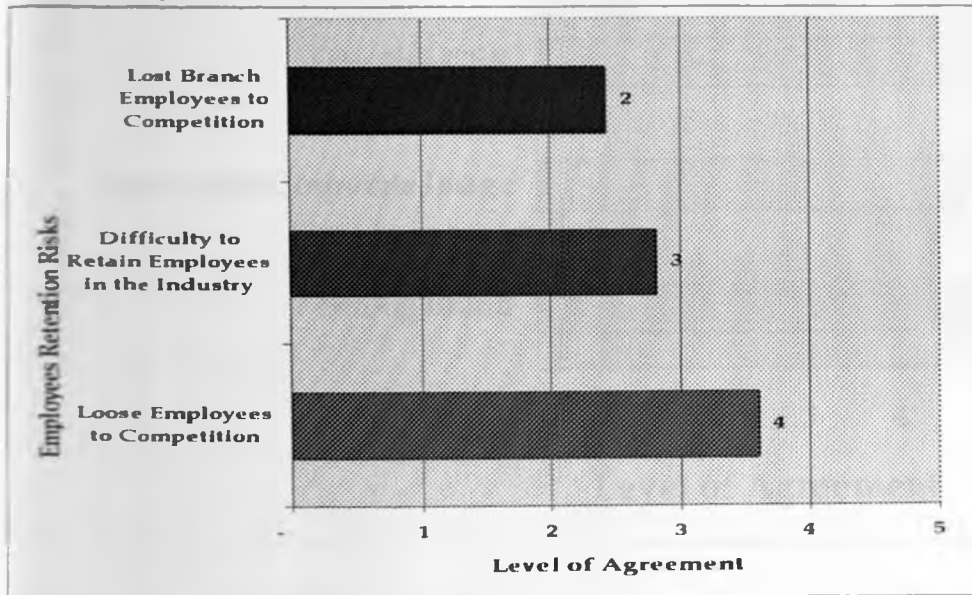


#### 4.3.1.4 Employee Retention

KCB scored 2.94 on employees' retention vulnerability. KCB staff members were also unsure on whether they had good employee retention policies or strategies. This was because they were unsure on their vulnerability of losing their fellow workmate to competition. The staff who totally agreed that KCB was losing most of their staff to competition was 34.1% while 19.3% neither agreed nor disagreed that it was difficult to retain employees in the banking industry in recent times. However, 51% of the staff totally disagreed that more than a quarter of the staff from the branch had left the bank to competition. That showed that even though staff members were sure that competition was not poaching the staff at the branch levels, they were unsure about the bank's ability to retain employees in a banking environment which was mostly characterized by employees moving from one bank to the other. There was however consensus that the bank was losing most staff to competition and that competition

targeted mainly the highly skilled and experienced staff at the head office. These variables are shown in figure 7.

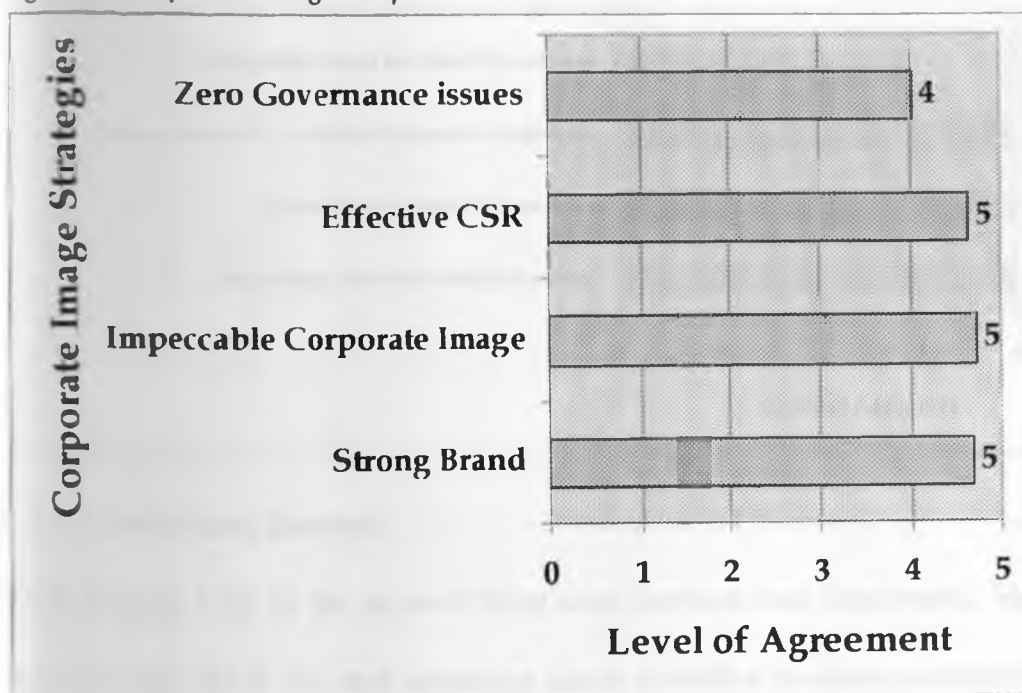
Figure 7: Employee Retention strategies



#### 4.3.1.5 Corporate Image

KCB's image scored 4.53 out of 5. All staff members had confidence on their bank's image. The bank scored 4.01, 4.66, 4.69 and 4.74 on zero governance issues, effective CSR activities, brand strength and impeccability of the KCB corporate image. Of the respondents 45% totally agreed that KCB did not have any governance or ethical or bad publicity in the last couple of years while 79.5% of respondents totally agreed that KCB CSR activities had really touched lives of Kenyan people. However, 76.1% of the respondents totally agreed that KCB had a strong brand and 80.7% claiming that KCB had an impeccable corporate image as shown in figure 8.

Figure 8: Corporate Image Response

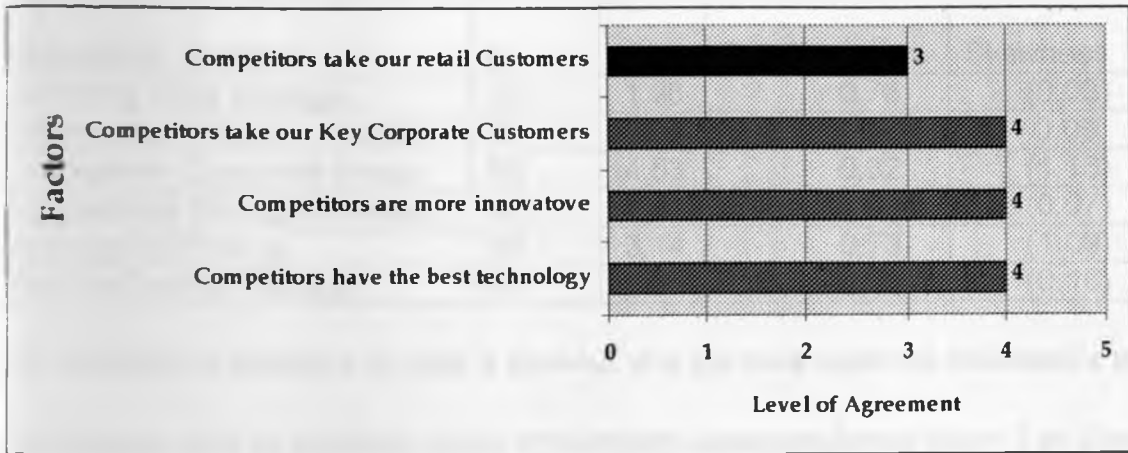


#### 4.3.1.6 Competitive Perspectives

KCB scored 3.79 out of 5 on their vulnerability to competition. KCB employees thought that competitors were more superior to them. A percentage of 36.4%, 37.5% and 36.4% of employees agreed to a large extent that; KCB was loosing key corporate customers to competition; competitors were more innovative than KCB and that competitor had better technology respectively. However, 35.2% of the respondents neither agreed nor disagreed that KCB were loosing their retail customers to competition, these factors are shown in figure 9.



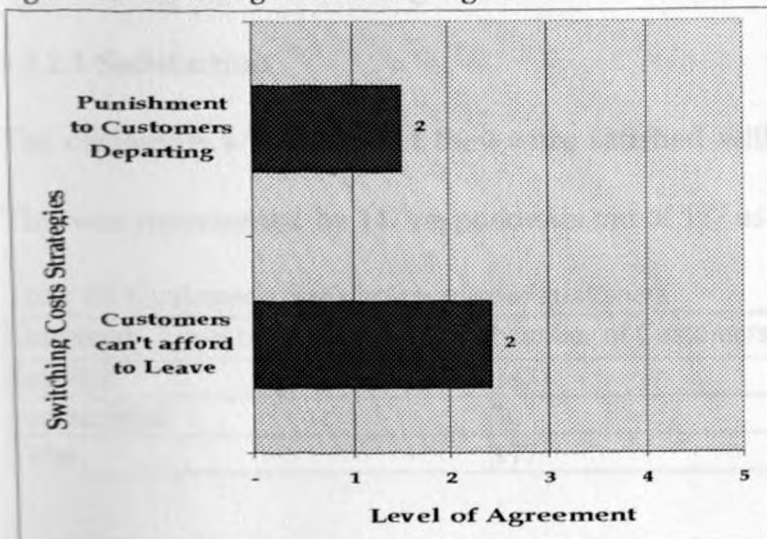
Figure 9: Competitive perspectives strategies



#### 4.3.1.7 Switching Barriers

KCB scored 1.96 as far as switching cost barriers was concerned. Most employees thought that KCB was not imposing harsh penalties to coerce customers to continue banking with them. A total of 30.7% of respondents disagreed in totality that KCB had made it very difficult for customers to leave the bank because they would loose a lot, while 60.2% of the respondents also disagreed in totality that KCB were planning to put punitive commission to stop the customers from leaving the bank. Figure 10 shows these barriers.

Figure 10: Switching Barriers strategies





*Table 9: Summary of employee statistics*

| Descriptive Statistics       | N  | Mean | Std. Deviation | Skewness |
|------------------------------|----|------|----------------|----------|
| Switching Cost Average       | 88 | 1.96 | 0.78           | (0.03)   |
| Employees Retention Average  | 88 | 2.94 | 1.17           | 0.09     |
| Average on Corporate Image   | 88 | 4.53 | 0.32           | (1.16)   |
| Competitors Strength Average | 88 | 3.71 | 1.03           | (0.97)   |
| Average on Pricing           | 88 | 3.14 | 0.73           | (1.09)   |
| Service Quality Average      | 88 | 3.36 | 0.80           | (0.16)   |

The descriptive statistics in table 9 showed that the data collected followed a normal distribution with all absolute values of skewness measures being below 1 or close to 1.

The statistics showed that KCB in their bid to retain customers have done well in enhancing their image and were neither coercing their customers through setting punitive account closure costs and processes. They were however unsure about their service quality, pricing and employees retention policies and strategies. KCB were more fearful of their competition and were thinking that the competition was more superior to them.

### **4.3.2 CUSTOMERS VIEW**

This will highlight the findings derived from customers' questions

#### **4.3.2.1 Satisfaction**

The customers who said that they were satisfied with the banks services were 83%.

This was represented by 147 respondents out of 177 as shown in table 10.

*Table 10: Customer's Satisfaction view of customers*

| Customers' Level of Satisfaction | Number of Customers | Percent      | Cumulative Percent |
|----------------------------------|---------------------|--------------|--------------------|
| Satisfied                        | 147                 | 83.1         | 83.1               |
| Not Satisfied                    | 30                  | 16.9         | 100.0              |
| <b>Total</b>                     | <b>177</b>          | <b>100.0</b> |                    |

### 4.3.2.2 Customers feeling Valued

A total 77% of the customers felt that the bank valued them. This was represented by 136 respondents out of 177 as per table 11.

*Table 11: customer's opinion on value*

| Customers Opinion   | Number of Customers | Percent      | Cumulative Percent |
|---------------------|---------------------|--------------|--------------------|
| Felt Valued         | 136                 | 76.8         | 76.8               |
| Did not feel Valued | 41                  | 23.2         | 100.0              |
| <b>Total</b>        | <b>177</b>          | <b>100.0</b> |                    |

### Why customers felt valued

Of the 136 customers who felt valued, 32% associated their claim with the personalized services offered by KCB while 29% of them said that they were treated in a friendly manner when doing their over the counter transactions. However, 17%, 15% and 5% of these respondents pegged their sense of being valued to efficiency, affordability and good product features respectively. Timely communication, standard of KCB processes and how well account were maintained were reason identified by 1% of the respondents as being key that made them feel valued. These are shown in table 12.

*Table 12: Factors of customer value*

| Reason for Being Valued             | Percentage (%) |
|-------------------------------------|----------------|
| Personalized Service Offered        | 32             |
| Friendly Treatment over the Counter | 29             |
| Efficient Services                  | 17             |
| Affordable Services                 | 15             |
| Good Product Features               | 5              |
| Timely Communication                | 1              |
| Processes are at Acceptable levels  | 1              |
| Account is maintained well          | 1              |

This means that KCB customers' preferred more personalized services and friendly treatment at the counters

**Why customers felt not valued**

The customers who claimed that the bank did not value them were 23%. 41 customers out of 177 represented the percentage. Of the 41 customers 37% did not feel valued because of poor treatment over the counter while 32% and 27% associated the feeling with insufficient attendants and rigidity and bureaucracies in the KCB's processes. However, 17% did not feel valued because either the bank sent staffs that were not trained and knowledgeable to serve them or the bank closed and opened at a time that was not convenient to them. Lastly 12% and 5% of the customers felt that they were not valued because they were offered service at a slow pace and that the banks ATMs were mostly down respectively as evidenced in table 13.

*Table 13: Customers not feeling valued*

| <b>Reason for not Feeling Valued</b>                      | <b>Percentage (%)</b> |
|---|-----------------------|
| Poor Treatment over the Counter                           | 37                    |
| Insufficient Attendants                                   | 32                    |
| Rigidity and Bureaucracy in their processes               | 27                    |
| Staff not Trained and hence not knowledgeable             | 17                    |
| Closing and Opening Time are not Convenient for Customers | 17                    |
| Slow Services   | 12                    |
| ATMs are mostly down                                      | 5                     |

Banks customers are becoming sophisticated and even customers from retail end want to be served faster, friendlier, with less bureaucracy and at their convenience.

### 4.3.2.3 Frequency of communication

The customers who said that they rarely received communication were 46.9%, while 9.6% claimed that the bank never communicated with them and 11.9% thought the bank communicated just enough times. Only 18.1% of the customers said that bank was communicating often while 6.8% said the bank communicated very often as shown in table 14.

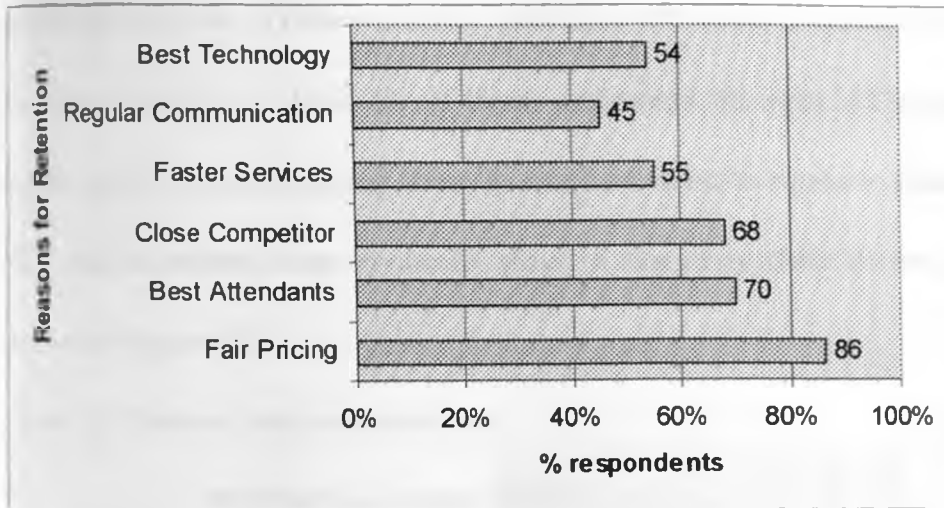
Table 14: Communication frequency

| Frequency of Communication | Frequency | Percent | Cumulative Percent |
|----------------------------|-----------|---------|--------------------|
| Very Often                 | 12        | 6.8     | 6.8                |
| Often                      | 32        | 18.1    | 24.9               |
| Just Enough                | 21        | 11.9    | 36.7               |
| Rarely                     | 83        | 46.9    | 83.6               |
| Never                      | 17        | 9.6     | 93.2               |
| Don't No                   | 12        | 6.8     | 100.0              |
| Total                      | 177       | 100.0   |                    |

### 4.3.2.4 Customer retention variables

The customers who thought KCB pricing was fair were 86% while 70% thought KCB recruited and retained the best people to serve them. Only 54% of the customers claimed that KCB had the best technology, however 55% felt that the quality of services provided was good due to faster services provided by KCB while 45% claimed they were delighted by KCB being able to consistently send them information about new products. These statistics are shown in figure 11.

Figure 11: Customer retention variables



### Retention capabilities

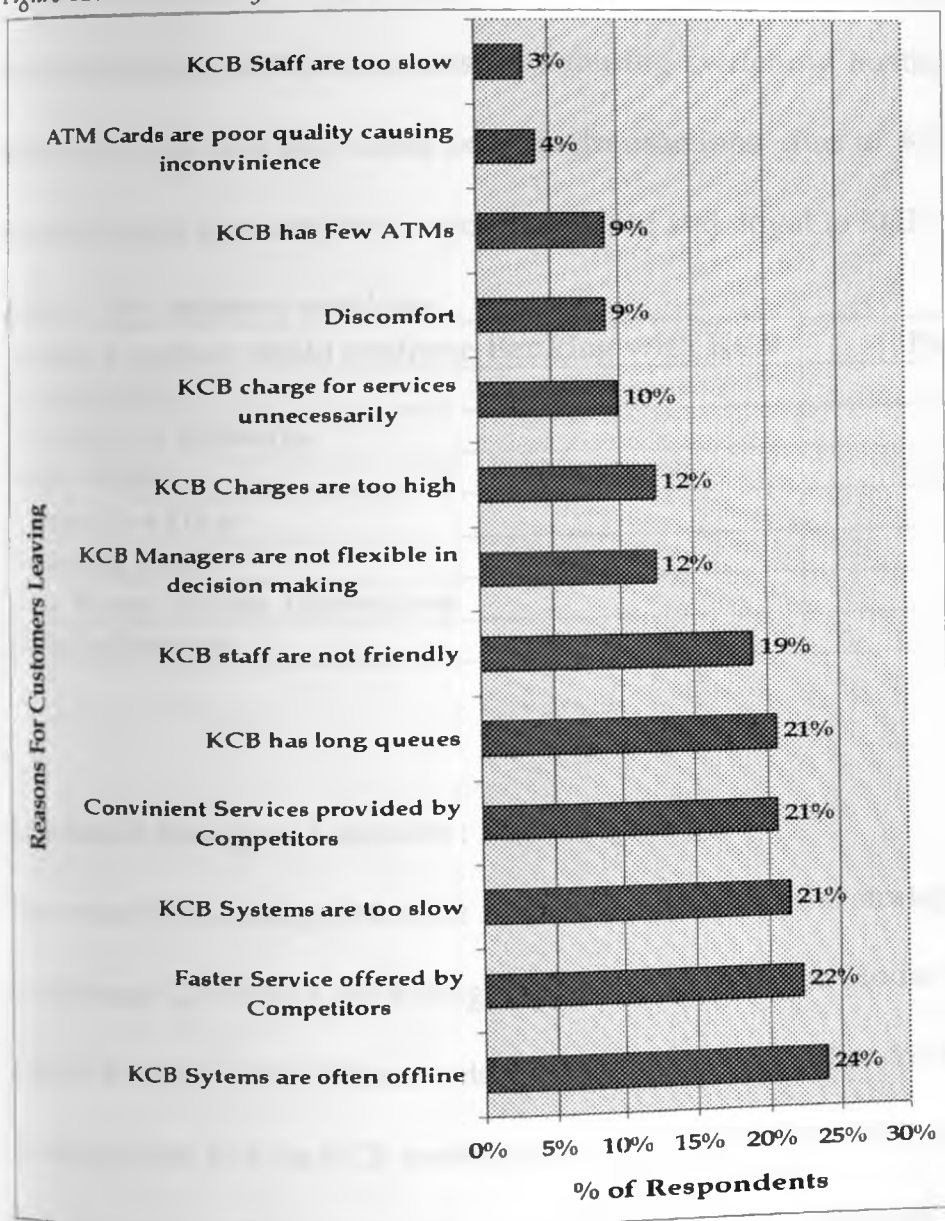
Having checked the strength of customer retention variables for KCB, it was important to check their retention capabilities and vulnerabilities. On KCB competitiveness it was found that 68% of the customers claimed that KCB had close competitors. This made KCB vulnerable to competitors as far as customers' poaching was concerned. On the retention vulnerabilities 55% of customers said that they had contemplated leaving the bank on several occasions.

#### 4.3.2.5 Reason for Leaving

The 55% of the customers who had contemplated leaving the bank had various reasons. Of them 24% and 22% claimed that KCB systems were mostly off-line and that competitors offered better services respectively while 21% of them claimed that the systems were slow, competitors offered more convenient services and that they were long queues at the banking halls. Also 19% customers said that staff were unfriendly while 12% felt managers were inflexible and that charges were high.

Customers who claimed that they were forced to pay unnecessary charges were 10% while 9% said the ATMs were few and they felt some discomfort in operating their accounts in KCB. At least 4% of those customers thought ATM cards were of poor quality thus inconveniencing them in frequent need to replace, while 3% thought that KCB staff members were generally slow in executing their duties. These reasons are shown in figure 12.

Figure 12: Reasons why customers leave



#### 4.3.2.6 Reason for staying with KCB

The customers who claimed that they had not contemplated leaving KCB because of the good work that KCB was doing were 45%. Of them 88% said that they were comfortable operating their accounts with KCB, 30% said the wide KCB branch network had made it more convenient for them to operate accounts with KCB while 20% of them were happy with number of KCB ATMs. Also 16% of them said they would not leave KCB because it offered very competitive prices while 5% associated their maintenance of KCB accounts on avoiding switching hustle, suitable products offered by KCB and easy cross boarder transactions due to KCB presence in the region. Table 15 indicates why customers would stay loyal to KCB.

*Table 15: Why customers would stay*

| <b>Reason Customer would continue Banking with KCB</b> | <b>Percentage (%)</b> |
|--|-----------------------|
| Comfortability   | 88                    |
| Wide Branch Networks                                   | 30                    |
| Many ATMs  | 20                    |
| Competitive Price                                      | 16                    |
| Switching Hustle                                       | 5                     |
| Easy Across boarder Transactions                       | 5                     |
| Suitable Products                                      | 5                     |

#### 4.3.3 Senior Manager's Interview : Formal Strategy

The researcher's findings from the Interview on the formal strategy in the bank with the Regional Customer Care Manager stationed at Kencom House indicated that KCB did not have a formal customer retention strategy, but rather the documentation was on the pipeline and the KCB management was hopeful that the strategy would meet board approval. The retail bank had made previous attempts at formalizing the

customer retention strategies but was unable in 2002 and 2005 because it only covered retail customers. The second time it was dropped because it did not meet prioritization criteria that was set at that point in time.

The managers however were confident that employees placed customer retention as an important aspect of the business because the first KCB value was putting the customer first. All KCB staff had been put through training of living the KCB values and they were awarded in form of Simba awards where delighting customer was one of the major customer value awarded.

Once the documentation was through then it would be communicated to all staff via e-mail and intranets. The same would be communicated to customers through the media.

The document would be written after extensive consultation with the employees, customers, potential customers and customer care consultants and researchers.

#### **4.4 Chapter Summary**

This chapter presented the findings from the analysis of primary data. The next chapter would give summary, conclusions and recommendation for the study.



## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Introduction

The general objective of this study was to evaluate the strategies KCB has used to retain her customers and whether these strategies have had positive impacts. The objectives were broken down to the following specifics:

- To evaluate whether KCB has a documented Customer Retention Strategy
- To evaluate whether it has been communicated clearly and timely to the concerned employees
- To evaluate the strategies used to retain the customers

The chapter would expound whether the objectives were met or not. The chapter would give a summary of the findings, discuss the findings, conclude and give recommendations.

#### 5.1 Summary of findings

| Objective  | Data Collection Instruments       | Type of Analysis | Findings   |
|--|-----------------------------------|------------------|--|
| To evaluate whether KCB has a documented Customer Retention Strategy                       | Interview with KCB Senior Manager | Qualitative      | <ul style="list-style-type: none"> <li>• KCB did not have a documented Customer Retention Strategy</li> <li>• There were plans to have it introduced in the near future</li> </ul> |
| To evaluate whether it has been communicated clearly and timely to the concerned employees | Interview with KCB Senior Manager | Qualitative      | <ul style="list-style-type: none"> <li>• Planned to use e-mail, intranet and media (newspaper, radio, TV and internet) to inform both internal and</li> </ul>                      |

|   |   |             |   |
|---|---|-------------|---|
|   |   |             | external customer   |
| To evaluate the strategies used to retain the customers | Questionnaires from employees and customers | Qualitative | <p>Had good strategies on</p> <ul style="list-style-type: none"> <li>• Pricing</li> <li>• Corporate Image</li> <li>• Switching Costs</li> <li>• Wide Branch Network</li> </ul> <p>Had poor strategies on</p> <ul style="list-style-type: none"> <li>• Competitiveness</li> <li>• Employees Retention</li> <li>• Communication</li> <li>• Service Quality</li> <li>• Lack of a documented customer retention strategy</li> </ul> |

Using the employees' instrument it showed that employees had a lot of uncertainties on issues concerning their ability to satisfy or retain their customers. Employees were not sure whether they offered quality services because they were not sure whether they were reliable, had empathy on their customers, communicated at expected frequencies and anticipated their customers' needs well in advance. They were however confident that their customers were assured of good services, prompt response and good banking environment where attendants were smartly dressed. The employees were also not sure whether the pricing of their products was correct and neither were they sure if they will be able to retain their best employees. There were factors that the employees were sure of. One of them was that their competitors were a bit superior in poaching their customers through better services and innovative

products. The other factor is that they never used or planned to use harsh penalties to coerce their customers to stay. Most importantly they were unanimous in agreeing that their brand was strong and that it was what had made them competitive. The bankers were also unsure whether the customers were satisfied or not.

Deductions from customer instrument were more telling with most customers feeling satisfied and valued by the bank. Most of these customers had an average of two accounts, which showed that KCB was doing well on cross selling and retention because the average length that most respondents had maintained a relationship with KCB was 6 years. Savings, transaction and related accounts were the most opened accounts followed by current account. The customer profiles of most of KCB customers were employed people followed by business people and students.

Majority of the customers however confirmed the employees fear by acknowledging that there existed close competitors to KCB and also asserted that competitors provided superior efficiencies, innovations and convenient services which tempted them to switch. Most of the customers claimed they had at one point or another contemplated switching to other banks.

The main reason for bank being at the brink of losing customers and employees having doubts on banks' seriousness on retaining customers was due to lack of formal documentation of banks' retention strategy at KCB.

## **5.2 Discussion of findings**

There were several factors that affected KCB's ability to satisfy and retain their customers. Some of the strategies came out strongly as working for the bank while

other strategies showed some weaknesses. The study however looked at three striking factors that KCB were strong on and also four major areas, which KCB was challenged by.

### **5.2.1 KCB's Strength.**

The foregoing showed that KCB was strong in Pricing, branch network and corporate image.

#### **5.2.1.1 Pricing**

Economists like Keynes advocated for price to be determined by the market. In marketing however scholars like Kotler (1999) saw price as one factor amongst four, which was important in the marketing mix. Price was to be used strategically to achieve certain marketing gains. KCB pricing strategy was to be affordable to a low-income customer but also discriminated her prices to the higher end corporate customers. As Corey (2002) suggested that price was used as an economical signal for corporate strategic mission KCB had always put itself at offering their loans at the lowest base rate to attract lower end customers and stay in line with her vision of being the best bank in the region. The bank also discriminates the prices in different market to maximize on price in line with the theory suggested by Anderson and Simester (2004) who suggested that price discrimination in different market was a good option to maximizing on price. KCB prices was considered very affordable by 86% of the customers this was because KCB used both competitive and value based pricing depending with the regulatory environment and the price sensitivity of the

market segment. KCB did not use the lowering of entry costs strategy to attract customers and penalize the existing ones. KCB pricing policy avoids the Reichheld (1996) theory that some companies penalize their customers for being loyal by offering lower costs services to attract new customers without extending the same offer to the existing customers.

The impact of the good KCB pricing policy, however, was not considered to be of major importance by customers. In most occasions it was not ranked amongst the top three reasons for either customer staying or leaving the bank nor was it considered as among top three reasons for either customer feeling valued by the bank or not.

#### **5.2.1.2 Corporate Image**

Fornell (1992), indicated that corporate image was an overall evaluation of the company and was measured using three indicators; overall opinion of the company, opinion of the company's contribution to the society through its corporate social responsibilities (CSR) activities and liking of the company.

The corporate image is important since customers are drawn from the communities the bank operates in. The customers may develop loyalty to the bank and feel to be a part of it due to her CSR activities.

Respondents agreed unanimously that KCB had a strong brand. The KCB brand has been on the forefront and was not easily matched by other banks in the industry. The brand was voted the fourth best brand in Kenya by Steadman survey but the best amongst banks. The respondents totally agreed that KCB had a strong brand, impeccable corporate image and their CSR activities touched the lives of Kenyans

significantly, no wonder they were chosen the best corporate citizens in the recently held COYA awards.

KCB's corporate image was however not mentioned as a major factor that would influence customers from staying with the bank or not.

### **5.2.1.3 Branch network**

In marketing mix amongst the 4Ps Kotler (1997) mentioned the presence of place. This was where the product would be sold or service would be provided. It was not enough to produce, give a good price and promote the product, marketers needed to place the product near to the customer. KCB in its bid to make the services available and attaining their vision of being the best bank in the region has used branch expansion strategy where they planned to open over 30 branches within the region. This made their services accessible across the boarder and since they had emulated the one branch bank system then it was convenient for across broader traders and travelers as they could access their funds easily across the region. The bank also had numerous correspondent banks, which made it easier for international travelers and traders to transact. KCB has the highest branch network in Kenya.

The branch network factor was considered as a main factor for staying with KCB and their wanting to have a continued relationship with the bank.

## **5.2.2 KCB's Challenges**

KCB was also having key challenges in competition, communication with customers, Relationship management and lack of a documented policy and strategy document on customer retention.

### **5.2.2.1 Competition**

The employees felt that competitors offered superior services and the customer confirmed that KCB had close competitors. Some customers had even contemplated leaving KCB to other banks because those banks were providing convenient services and had innovative products. Looking at the recent financial performance one would see that Equity bank had closed the profitability gap between them and KCB by equaling KCB's 2008 half-year profit before tax of Kshs 3.5 billion. They had also taken the leadership on the number of retail customers with 2 million customers as at 31st March 2008. Equity, which also beat KCB to the Euro bank best bank in Africa for two consecutive years 2006 and 2007, seemed to be the competitor implied by the customers and employees.

The study however did not extract the KCB competitors and therefore would not ascertain the close competitor the customer had claimed KCB had.

### **5.2.2.2 Communication**

Most customers were complaining that KCB hardly communicated to them and they sighted lack of communication as one of the reason that would make them leave the bank. Communication should not be underrated because 26% of the customers were

business people who needed to be communicated to on daily basis to make decisions. Even the employed 62% needed communication because some of them might be operating businesses on the sides to supplement the incomes they earned from employment. They may also be needy of the information to plan well in their payment of school fees, utilities and other payments. Inadequate communication put KCB on a collision course with customers and KCB would be the biggest loser unless they change to avert the situation.

### **5.2.2.3 Relationship Management**

The service qualities that employees were unsure of were: their reliability; anticipation of customer needs; communication to the customers needs; their empathy towards the customers. Most of these were easily summarized by relationship management. If they were found wanting then they would spoil the relationship between customers and their bank. Customers wanted better treatment and expected friendliness and empathy from the attendants. At least 32% and 29% of the customers felt valued because they received personalized services and also received friendly treatment over the counter respectively while 37% and 32% of customers respectively felt not valued because they were poorly treated at the counter and that there were insufficient attendants to serve them expeditiously. Of those customers, 19% who had contemplated leaving the bank said they would do so because KCB staff members were not friendly while 88% of the customers said they would not leave KCB because they felt comfortable at KCB. This showed how relationship management was important. KCB needed to improve the way they related to their customers by



improving their communication, reliability of their services and uptime (i.e times the machines are working without problems) of their ATMs because even though they had many ATMs they spoilt their relationship with their customers since they were not reliable. The long queues also spoilt their relationship because the customers felt that KCB enjoyed torturing them and were not empathetic about their time concerns.

#### **5.2.2.4: Lack of a well communicated policy and Strategy for Customer retention**

The customer importance in KCB was only expressed through KCB values, which all staff were put through training to enable them live those values. Living those values also made employees get rewarded. This however is shallow, as it does not equip customer-facing staff with specific strategy to handle the customers within their segment. The lack of formal strategy has made most employees unsure and lack commitment in serving the customers well. It also created lack of uniformity in serving customers and leaves a lot of room of vagueness in approaches towards customer care and service provisions.

### **5.3 Limitations of Study**

Banking industry in Kenya as expected is a very competitive industry. To seek information from the players was a very difficult task as respondents were suspicious of whether the information was being sought by competitor or not. That was why the response rate from employees was much lower than that of customers. There was also inability by researcher to distribute and collect the questionnaires on her own but the use of research assistants enabled the researcher avert this problem.

KCB was in the middle of changing their core banking system and thus to get employees to fill the questionnaires was a daunting task. Finally, since the research was restricted to Nairobi province, the findings may not be fully generalized to the entire banking industry in Kenya especially in the rural areas where the settings are quite different. Hence there is need to conduct a comprehensive research on customer retention covering the entire country.

The research showed that KCB had more female customers than men which was not the true state on the ground. This might have been caused by the flow of customers on the week and time of data collection.

## **5.4 Conclusions and Recommendations**

This section looked at the conclusions and recommendations for the study

### **5.4.1 Conclusions**

The research found out that KCB did not have a formal documented customer retention strategy, which would be used to guide the employees on how to retain the customers. However, the researcher found out that KCB applied several customer retention strategies and communicated the same using its core values, which included putting the customer first, working together as a team, being professional in everything and being part of the community.

The strategies, which came out as strongly working out for KCB were pricing, corporate image, switching barriers and wide branch network. However, KCB had major challenges in keeping the customers due to poor service quality, stiff competition from other financial institutions, poor employee retention, lack of

frequent communication with the customers and lack of formal documented customer retention strategy leading to inconsistencies in handling the customers.

#### **5.4.2 Recommendations**

The study would have two forms of recommendations: the first would be policy recommendations and second the researcher would recommend areas for further studies.

##### **5.4.2.1 Policy Recommendation**

KCB needed to act fast if it were to avert customer exodus and avoid expensive process of recruiting new customers who will leave them to competition before optimizing on the relationship created. KCB needed to:

- i) Formalize the customer retention strategy
- ii) Invest on better and uniform systems across the board that would give KCB superiority and reliability in customer services.
- iii) Work on their opening and closing times to accommodate the needs of their customers
- iv) Embed modern media of services like internet banking and give their ATMs more capabilities like receiving customer deposits
- v) Maximize on their brand strength and branch network to take a bigger market share by cross selling and segmenting their market to tap in all the markets.
- vi) Improve the frequency and quality of communication with their customers
- vii) Invest in training to stay a head of competition

- viii) Recruit best performers from competitors to beat competition by having the most innovative employees in KCB
- ix) Complement the introduction of the new core banking IT system T24 with rigorous customer relationship management training to build a winning strategy as far as customer retention is concerned.

#### 5.4.2.2 Recommendation for further research.

The study covered many aspects of customer retention strategies but left some areas still green and unexplored. It was those areas that the study would suggest studies to be drawn from.

- 1) The study looked at Cohen et al (2006) customer retention strategy model with a notion that all the variables were equally important in creating customer satisfaction and hence retention, it would therefore be important to conduct a study that would rank the importance of different factors that result to customer satisfaction and retention.
- 2) It would also be interesting to study whether the customer preferred banks with better system efficiencies or those that were more concerned at creating greater relationships despite challenges in system efficiencies.
- 3) In the case of KCB, it would also be good to check out the impact that their new IT system (T24) would have on customer retention or customer service delivery.

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## Appendix 1 : Questionnaire for employees

|   |  |  |   |  |  |
|---|--|--|---|--|--|
| 1 | Branch Name:   |  |   |  |  |
| 2 | Gender of Respondent:  |  | M |  |  |
|   |  |  | F |  |  |
| 3 | How many years have you worked at KCB  |  |   |  |  |
| 4 | Do you think the customers are satisfied by the bank's services?<br>(tick the appropriate description) |  |   |  |  |
|   | Yes  |  | A |  |  |
|   | No   |  | B |  |  |

Kindly indicate the extent at which you agree with the following statements. Tick as appropriate

### 5. Competitive Edge: Service Quality

|  | Disagree<br>Totally | Disagree to<br>a large<br>extent | Neither<br>agree nor<br>disagree | Agree to a<br>large extent | Totally<br>Agree |
|--|---------------------|----------------------------------|----------------------------------|----------------------------|------------------|
| 5a. Tangibles: Our banking halls are captivating, our staff are smartly dressed and we offer quality communication materials   |                     |                                  |                                  |                            |                  |
| 5b. Reliability: We are highly reliable to our customers because we keep our promises  |                     |                                  |                                  |                            |                  |
| 5c. Responsiveness: All our staff are willing to help customers and respond to their needs promptly                            |                     |                                  |                                  |                            |                  |
| 5d. Assurance: our staff are knowledgeable and trusted by their customers  |                     |                                  |                                  |                            |                  |
| 5e. Empathy: our staff care for their customers and offer individualized attention to them                                     |                     |                                  |                                  |                            |                  |
| 5f. We always anticipate customer needs and prepare for them   |                     |                                  |                                  |                            |                  |
| 5g. We call our customers often enough to update them on new products as well as give them important details of their accounts |                     |                                  |                                  |                            |                  |
| <b>6.Pricing</b>   |                     |                                  |                                  |                            |                  |
| 6a. We offer the lowest commissions and interest in the market for our facilities  |                     |                                  |                                  |                            |                  |
| 6b. We offer the highest interest in the market for our deposit accounts   |                     |                                  |                                  |                            |                  |

|  |  |  |  |  |  |
|--|--|--|--|--|--|
|  |  |  |  |  |  |
| <b>7: Competitive Perspective</b>  |  |  |  |  |  |
| 7a. Our competitors are taking some of our key customers   |  |  |  |  |  |
| 7b. Competitors are more innovative than us  |  |  |  |  |  |
| 7c. Competitors have the best technology than us   |  |  |  |  |  |
| 7d. Our customers never leave us for competition.  |  |  |  |  |  |
|  |  |  |  |  |  |
| <b>8: Corporate Image</b>  |  |  |  |  |  |
| 8a We have a strong brand  |  |  |  |  |  |
| 8b Our corporate image is impeccable   |  |  |  |  |  |
| 8c Our CSR activities have really touched lives of people in Kenya                               |  |  |  |  |  |
| 8d We have not had any Governance nor ethical issues nor bad publicity for a couple of years     |  |  |  |  |  |
|  |  |  |  |  |  |
| <b>9: Employee Retention</b>   |  |  |  |  |  |
| 9a. We have lost most of our employees to competition  |  |  |  |  |  |
| 9b. It is very difficult to retain employees in this industry                                    |  |  |  |  |  |
| 9c. More than a quarter of the staff at the branch have left the bank in the last two years      |  |  |  |  |  |
|  |  |  |  |  |  |
| <b>10: Switching Barriers</b>  |  |  |  |  |  |
| 10a. It is very difficult for a customer to leave us because he/she would loose alot by doing so |  |  |  |  |  |
| 10b. We plan to put punitive commission for customer wishing to close their accounts with us.    |  |  |  |  |  |

## Appendix 2 : Customer Questionnaire

1 Branch You Hold an Account with: \_\_\_\_\_  
\_\_\_\_\_

2a Gender of Respondent:

M

F

2b Customer Status: i)Employed----- ii)Business-----  
-----

iii) Other (please specify) -----  
\_\_\_\_\_  
\_\_\_\_\_

3a For How long have you been a KCB Customer? \_\_\_\_\_  
\_\_\_\_\_

3b How many accounts do you hold with KCB? \_\_\_\_\_  
\_\_\_\_\_

3c Kindly list it/them? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4 Are you satisfied by the banks services?  
(tick the appropriate description)

Yes

A

No

B

5a Do you feel valued by the bank?

Yes

A

No

B

5b Kindly Explain? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

6a How often does the bank communicate to you?

Very Often

Rarely

Often

Never

6b Kindly Explain? \_\_\_\_\_  
\_\_\_\_\_

---

7a Do you think that the bank charges are fair and corresponding to the value provided to you?

Yes

No

|   |
|---|
| A |
| B |

7b Does the bank serve you fast enough to your liking?

Yes

No

|   |
|---|
| A |
| B |

7c Does the bank have the best technology and seamless systems to serve you at your convenience?

Yes

No

|   |
|---|
| A |
| B |

7d Does the bank advise you on their new products regularly?

Yes

No

|   |
|---|
| A |
| B |

7e Does the bank have the best people to serve you?

Yes

No

|   |
|---|
| A |
| B |

7f Does the bank have any close competitor whom may be providing better services than them?

Yes

No

|   |
|---|
| A |
| B |

7f Have you ever contemplated leaving the bank for another?

Yes

No

|   |
|---|
| A |
| B |

7g Kindly Explain?

---

### **Appendix 3: Interview Guideline**

This was asking whether there existed documented customer retentions strategies;

#### **In case the strategy document existed**

How was it derived at? Who were the stakeholders? Which parties were consulted?

If the strategy existed has it been communicated?

How was it communicated to staff and customers?

Ask for a copy if it was possible to get one.

#### **In case the strategy document did not exist**

Was the bank considering having one in the future or whether they had previously faced obstacles over the same and thus were not considering the issue.

If there was not any strategy document then how were customers facing staff supposed to treat customers well.

Was there anything on pipeline?

If yes which parties were consulted in the making of the documentation or which parties would be considered?

How would it be communicated to staff and customers?

## Appendix 4: Sample size selection

**Table 1.** Sample size for  $\pm 3\%$ ,  $\pm 5\%$ ,  $\pm 7\%$  and  $\pm 10\%$  Precision Levels Where Confidence Level is 95% and  $P=5$ .

Formula Used:  $n = N / \{1 + N(e)^2\}$

Where

n: Sample Size,

N= Population

e : Precision Level

| Size of Population | Sample Size (n) for Precision (e) of: |           |            |            |
|--------------------|---------------------------------------|-----------|------------|------------|
|                    | $\pm 3\%$                             | $\pm 5\%$ | $\pm 7\%$  | $\pm 10\%$ |
| 255                | a                                     | 156       | <b>114</b> | 71         |
| 500                | a                                     | 222       | 145        | 83         |
| 600                | a                                     | 240       | 152        | 86         |
| 700                | a                                     | 255       | 158        | 88         |
| 800                | a                                     | 267       | 163        | 89         |
| 900                | a                                     | 277       | 166        | 90         |
| 1,000              | a                                     | 286       | 169        | 91         |
| 2,000              | 714                                   | 333       | 185        | 95         |
| 3,000              | 811                                   | 353       | 191        | 97         |
| 4,000              | 870                                   | 364       | 194        | 98         |
| 5,000              | 909                                   | 370       | 196        | 98         |
| 6,000              | 938                                   | 375       | 197        | 98         |
| 7,000              | 959                                   | 378       | 198        | 99         |
| 8,000              | 976                                   | 381       | 199        | 99         |
| 9,000              | 989                                   | 383       | 200        | 99         |
| 10,000             | 1,000                                 | 385       | 200        | 99         |
| 15,000             | 1,034                                 | 390       | 201        | 99         |
| 20,000             | 1,053                                 | 392       | 204        | 100        |
| 25,000             | 1,064                                 | 394       | 204        | 100        |
| 50,000             | 1,087                                 | 397       | 204        | 100        |
| 100,000            | 1,099                                 | 398       | 204        | 100        |
| >100,000           | 1,111                                 | 400       | <b>204</b> | 100        |

Source: Israel, Glenn D. (1992), Sampling the Evidence of Extension Program Impact

## Appendix 5: LETTER OF INTRODUCTION

4<sup>TH</sup> JUNE 2008

University of Nairobi  
Faculty of External Studies  
Dept of Extra Mural  
P.o Box 30197  
Nairobi.

Dear Sir /Madam,

I'm currently pursuing a Masters degree in Project Planning and Management at the University of Nairobi. In fulfillment of the degree requirements, I am conducting a research project on "An evaluation of Customer Retention Strategies in the Banking Industry in Nairobi Province: The case of Kenya Commercial Bank Limited".

As part of the data collection process, I have attached a questionnaire, which I kindly request you to complete as honestly as possible. I confirm that the information received will be treated with strict confidence and will only be used for the purpose of the study.

Your co-operation will be highly appreciated.

Thanking you in advance,

Yours faithfully,

**Salome J. Kipkenda**  
M.A Student

**Prof. Maitho**  
Project Supervisor