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EFFECT OF CUSTOMER MANAGEMENT STRATEGIES ON THE PERFORMANCE OF COMMERCIAL BANKS IN KISII COUNTY, KENYA

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Abstract

Technology is a problem cause most customers are not accepting technological changes because they are afraid of being served at the ATMS, by agents or self-service banking machines as a result this causes conditions at branch levels reducing turnover or targets for the day. The main objective of the study was toappraise the effect of Customer Management strategies on the performance of Commercial banks in Kisii County. The specific objectives were to: find out the effect of technology strategy on the performance of Commercial banks, to establish the effect of customer's orientation strategy on the performance of Commercial banks and to find out the extent which quality service strategy effect the performance of Commercial banks operating in Kisii County. The study will adopt descriptive research design. The Target Population comprised all the 18 commercial banks with total 252 respondents. The study adopted census sampling technique Sample size of the study was154respondents. The study used primary and secondary data collection method. A questionnaire instruments was used in the collection of data. Secondary data instrument will include records, journals, published books and the internet. The study established thattechnology strategies are key to performance in commercial banks; Banks must embrace the latest technology for competitive advantage. Technology is constantly and as consequently, offers a diversity of systems for engaging in businesses to accomplish customer relationships competently and effectively. Strategic utilization of technology infrastructure gives banks the capability to monitor and evaluate purchasing habits of present customers, those customers of the future and groups of customers.Technological systems also provide banks with a platform to gain competitive and strategic options. The study recommends that banks have budgets specifically for technology upgrading and training of staff to on technology use. The study also recommends that the government should provide and invest in modern technology infrastructure in order for the banking industry to leverage on especially the provision of internet throughout the country and make investment in technology systems and security systems cheaper. The commercial banks should allocate more resources to customer relationships as this will lead to loyal customers.

The study further recommends the need for standardization of the training curriculum for service providers in the banking industry.

Keywords: Technology strategy, customer's orientation, quality service, performance.

I. INTRODUCTION

1.1 Background to the Study

Strategy is the pattern of activities which has an impact on the achievement of the organizational objectives in relation to its environment (Porter, 1990). Strategic management is the most important activity undertaken by any business or public organization. Business strategy is concerned with how the company competes within a particular industry. If the company is to prosper within an industry, it must establish competitive advantages over its rivals. Managers are constantly learning to play by a new set of rules. Organizations must be flexible to respond rapidly to competitive and market changes. They must benchmark continuously to achieve best practice.

In the business world today, top management recognize that customers are core to a business and the success of a company relies on effectively managing relationships with them. The main objective of organization is to make customers happy because they help keep the business running. Thusorganization tends to adopt differentiated and customer-oriented strategies to gain competitive advantage among these strategies customer management is recognized as an important tool. Customer Management enhances organization's ability to retain customers and gain strategically over its competitors. However, creating and managing relationships with customers more effectively through detailed and accurate analysis of consumer data using various information technologies, (Kihoro, and Ombui, 2012).

According to Kincard, (2003) Customer Management is the strategic use of information, process, technology, and people to manage the customers within a company across the whole customer life cycle. Hence, Customer Management is both business strategy and technology software set, with core data to build a long-term connection between the company and consumer. It is a helpful tool in organizations but some organizations are not realizing its benefits as their management initiatives fail.

Kenya is one of more affluent nations and is seen as a business hub for East Africa. Kenya's economy has been disadvantaged by corruption and a dependence on agricultural products whose prices have been unsuccessfulinrising sufficiently. Kenya has also borne the brunt of the 2008 global economic downturn that was characterized by a 7% drop in GDP from the preceding year (Wheeler et. al., 2008). However, manufacturing, tourism and investment have conquered the Kenyan economy for the last 40 years offering the country a prized position within Africa. When doing business, it is important to develop and grow a business culture that influences business performance. These include business hours particularly the banks business hours are from 9:00am to 4:00pm, but some businesses operate long hours on Saturday mornings It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations; and banking sector is not an exception to this.

The banking industry is verycompetitive,thus banks are not only competing among one another but also with non-conventional banks. Most bank product developments are easilyreplicated and when banks deliverapproximately identical services, they can only differentiate themselves on the premise of price and quality. Therefore, customer satisfaction strategies implementation is potentially an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment (Pearce and Robinson, 2007).

The implementation of customer satisfaction strategies have implications and influences for acquisition strategies, and that successful add-on offering financial products and services to current customers can allow a bank to increase investment in new customer acquisition, since the cost of offering additional products to current customers is generally lower and therefore increase bank profits are higher, (Karitie, 2011) .The current statistics shows that recruitment of new banking customers is very costly to commercial banks compared to retaining existing customers. On average, commercial banks will lose 20% of their customer base annually but by retaining as little as 5% of that base can lead to increased profits by double the existing figures (CBK, 2013). The failure to make correct customer satisfaction strategies will lead to inaccurate forecasts about how long a customer will stay the expected profitability of customers, and the impact of marketing efforts. The bank implements satisfaction strategies for customer acquisitions and customer retention while accounting for the impact of the acquisition process on the retention process.

1.2 Statement of the Problem

Information Technology it is a problem cause most customers are not accepting technological changes because they are afraid of being served at the ATMS, by agents or self-service banking machines as a result this causes conditions at branch levels reducing turnover or targets for the day. The Literacy level since a good number of customers are illiterate it takes much time to serve them especially month ends since the bank has to satisfy them. In addition, Language barrier because officers who do not speak a given language in a given area have a problem to convince the customers about what the bank offers and most customers believe they have to explain their problems in their vernacular. According to CBK,(2016) the banking industry has been faced with stiff competition. Some banks have been forced to wind up such as chase bank and imperial bank due to failure to embrace effective customer management strategies that can enable them operate optimally in the volatile banking sector. The banks have many sources of raising funds such as from their shareholders, private company's deposits and individual customer's deposits. Companies sometimes save their excess liquidity in bank accounts until they need it for various financial transactions like payroll and paying suppliers. These funds are important assets to banks before their customers come for them. This calls for strategies from the bank side that can entice customers to leave their deposits for some time without withdrawals.

Karitie (2011) conducted an analysis of the effectiveness of customer retention strategies in Equity Bank Kenya and the study concluded that customers choose the bank because they thought it had a reputation of superior service quality and that it was able to meet consumers changing needs. While Momanyi (2010) and Njuguna (2010) in their study on Customer Retention Strategies Adopted by Mobile Telecommunications Companies in Kenya concluded that customer retention strategies were found out to be most effective in achieving competitive advantage. Ogongo (2014) did Customer retention strategies adopted by commercial banks in Kenya and concluded that customers did not like switching because switching is too inconvenient, they have good relationship with the bank, they received incentive from the bank, they saw little advantage in switching, the bank was able to provide goods and services they needed and that they used a variety of products from the bank. Therefore, this study provided information on the effect of customer management strategies on the performance of banks in Kisii County.

1.3 Objectives of the Study

1.3.1 General objective

The general objective of the study is to evaluate the effects of Customer Management strategies on the performance of Commercial banks in Kisii County.

1.3.2 Specific objectives

The specific objectives were: -

- To find out the effect of Technology strategyon the performance of Commercial banks operating in Kisii County
- To establish the effect of Customer orientation strategy on the performance of Commercial banks operating in Kisii County
- To find out the extent which quality services strategy affect the performance of Commercial banks operating in Kisii County.

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II. LITERATURE REVIEW

2.1 Theoretical review

The study based on the following three main theories include the Co-evolutionary theory and the contract theory and Game Theory Game and Resource Based theory.

2.1.1 Co-evolutionary theory

According to Co-evolutionary theory (Lewin and Volberda,1999) indicates that as firms grow and evolve from small to larger and multidivisional organizations, the strategy implementation methods also evolve simultaneously. The various strategy implementation models are meant to meet the changing needs of firms as they evolve through various stages of the organizational life cycle. In contrast to the earlier descriptive models, this model is more prescriptive with an, albeit limited and classifications of strategy implementation styles: change, collaborative, and cultural.

The traditional way of thinking about strategy focuses only on deliberate strategies and suggests that some organizations begin implementing strategies before they clearly articulate their mission, goals or objectives. In this case, strategy actually precedes strategy formulation. He further points out that most organizations make use of both deliberate and emergent strategies. Whether deliberate or emergent, a strategy has little effect on an organization's performance until it is implemented.

2.1.2 Game Theory

According to the theory (Porter, 1980), explains that many economic decisions involving more than one actor (organization) take the form of a sequential, strategic game involving anticipation by one player of the other player's actions Games such as the Prisoner's Dilemma have been used to show how co-operative behavior becomes more likely if two actors interact with one another on a repeated basis. This is because repeated interactions enable them to get to know each other, to build trust and to overcome the lack of information available in a one-off interaction about the other party's likely behavior, (Lysons and Farrington, 2006).In a one-off interaction, where the other party's intentions are unknown, the model suggests that both actors will behave competitively to try to maximize their individual utility. Therefore, Game theory provides a set of tools and components that may be used to develop logically consistent models of rational human behavior.

Many business strategy decisions involve interdependent outcomes and therefore seem to lend themselves to game theory. The theory provides an exciting avenue for analyzing and developing decision making models applicable to strategic management. The models can be derived from a theoretical perspective, developed from empirical data, or a combination of both (Adele, 2013).

In general, it helps an organization in the decision maker or strategist in the organization with a model that can mechanically determine the optimal strategies and finally can provide useful and possibly counter-intuitive insights on competitor's interactions.

2.1.3 Resource Based theory

According to resource-based theory Conner (1996) explains that describes a firm as a set of resources. Firm resources are all assets, capabilities, competencies, organizational processes, firm attributes, information, knowledge, and so forth, that are controlled by a firm and that enable the firm to conceive and implement strategies designed to improve its efficiency and effectiveness, (Barney, 2011). There are four categories to sort resources into: financial capital, physical capital, human capital, and organizational capital. According to the RBT view, competitive advantage is a result of either ownership of, or un-restricted access to, inimitable assets, innovations and resource barriers. RBT suggests that in order to survive and improve operational performance, a firm is dependent on an efficient bundle and flow of the right type of resources from its surroundings. Competitive advantage is in this sense dependent on a firm's ability to effectively implement a strategy that maximizes value through access to external resources (Barney, 2011).When competitors learn to duplicate those assets, they will turn into entry assets and their possession can then only lead to competitive parity. Hence, a company that wants to be successful in the long-term continuously needs to be able to develop strategic assets. The theory of core competences argues that companies already compete during the creation of competences and not only later in the market for products. It is claimed that, instead of structuring a company around diversified business units and end-products, a company should be structured around a few core competences.

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2.2 Conceptual Framework

Independent Variables **Dependent Variable**

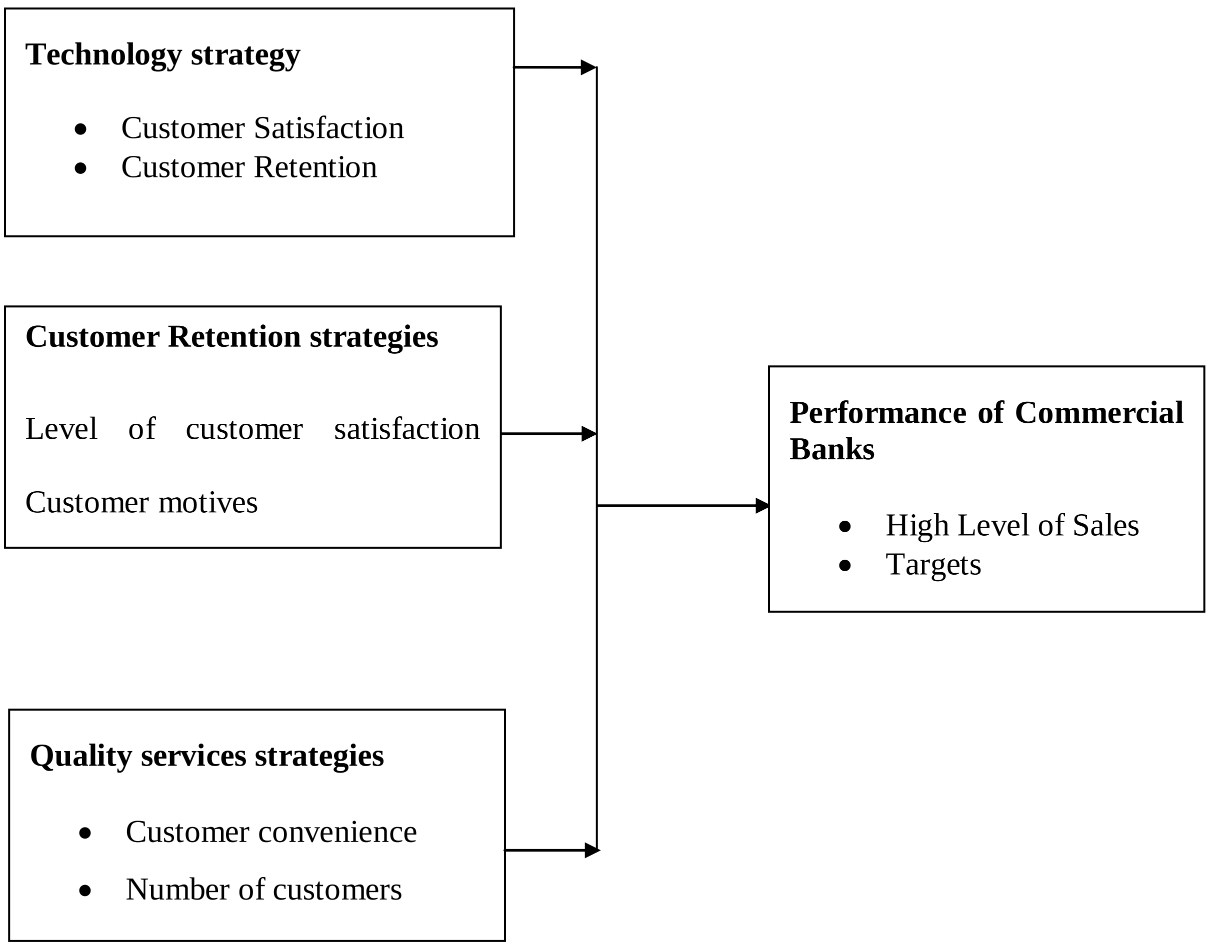

Figure 2.1: Conceptual Framework

2.3 Empirical Literature

Innovation consists of firms developing new products or new production processes to better perform their operations, in which case the new products could be based on the new processes (Lawrence, 2010). In the financial services industry, innovation is viewed as the act of creating and popularizing new financial instruments, technologies, institutions and markets, which facilitate access to information, trading and means of payment puts forward that innovations are not just critical for firms in the financial services industry, but also affect other companies; for instance, enabling them to raise capital in larger amounts and at a lower cost than they could otherwise and that innovation is an important phenomenon in any sector of a modern economy. According to Nofie (2011), innovations in the finance sector is the arrival of a new or better product and or a process that lowers the cost of producing existing financial services. Akamavi (2005) also notes that innovation in the financial services sector has led to recent fundamental changes including; deregulation and increasing competition. Another profound influence on the provision of financial services has been the huge advance in information technology and communication to develop new financial products that decompose and repackage different components of financial risk.

A strategy or general plan of action might be formulated for broad, long term, corporate goals and objectives, for more specific business unit goals and objectives, or for a functional unit, even one as small as a cost canter. Such goals might or might not address the nature of the organization, its culture, the kind of company its leadership wants it to be, the markets it will or won't enter, the basis on which it will compete, or any other attribute, quality or characteristic of the organization. Strategy and tactics relate to how a given end is to be attained. Together, strategy and tactics bridge the gap between ends and means. Resources are allocated or deployed and then employed in the course of executing a given strategy so as to realize the ending view. The establishment of the ends to be attained does indeed call for strategic thinking, but it is separate from settling on the strategy that will realize those (Nickols, 2011). These strategies play an important role to maximize performance outcomes (Ul Hassan, Sharif & Mukhtar, 2013).These strategies can be corporate, business, or functional. Marketing strategies constitute one of the functional strategies amenable to application by contemporary companies in order to enhance performance

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. The banking industry is vulnerable to a changing environment e.g loyal customers can be stolen away through aggressive marketing campaigns. Today banks are focusing most of their competitive efforts on physical presence such as branch network development in very attractive locations and promotions as well as offering supplementary services to differentiate themselves from other competitors focus of the organization is on how best to attract customers to purchase their goods and services and at the same time satisfying existing ones making them remain loyal. To get a set of organizational goals and objectives, companies conceptualize, design, and implement various strategies (Akinyele, 2010). Customer management enables an organization to gain better information on customers' values, behaviours, needs and preferences and helps it gain a competitive edge over its competitors. It makes it possible to identify customers'

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potentials, uncover the profiles of key customers, anticipate their needs, predict their behaviour, win back lost customers, create personalized marketing plans for each segment, develop new products and services, design communication tools and distribution channels, or identify new market opportunities based on customers 'preferences and history .

III. RESEARCH METHODOLOGY

3.1 Research Design

The study adopted descriptive research design, it was structured in a formal study with clear and well stated investigative questions which sought out who, what, where, when and how much (Cooper and Schindler, 2010). Alsodescriptive design was concerned with describing, recording, analyzing and interpreting of variables under the study.

3.2 Target Population

By the end of 31st December 2018, there were 18 commercial banks operating in Kisii County with a total workforce of 15,535 members of staff countrywide. Of these employees, 15% or 2,330 were deployed as middle and senior level managers (Central Bank of Kenya, 2018). The target population therefore comprised of 18 banks and 2,330 employees. Of the 18 commercial banks, 13 are locally owned while 5 are foreign. Table 1 illustrates the spread of this population among key strategic departments within banking system that the researcher sought to study.

Table 1: Target Population

Strategic Departments	Locally Owned Banks 70% of Total	Foreign Banks 30% 0f Total	Population
Human Resource Management	153	69	222
Operations Management	204	92	296
Credit Management	244	110	354
Deposits Operations	167	75	242
Mortgage Banking	115	51	166
Investment Banking	138	64	202

Electronic Banking	111	50	161
Customer Service	219	98	317
Information Technology	143	62	205
Accounts/Finance	114	51	165
Total	**1608**	**722**	**2330**

Source: (CBK, 2018)

3.3 Sampling Technique and Sample Size

Multi-stage sampling procedure was used in the selection of representative sample. The sample size of the study was 154 respondents which was about 7% of the universe population. This size conformed to the requirement that a good sample size should be between 5% and 30% of the population (Bradley, 2010). This was necessary so as to illicit representativeness, efficiency, flexibility and accuracy of data.

The Yamane (1967) formula for calculating sample sizes was used to calculate the sample size at 95% confidence level and P = 0.5.

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the sample size, N is the population size, and e is the level of precision.

$$n = \frac{2330}{1 + 2330/(0.05\times0.05)}$$

n = 154

The spread of the sample is indicated in the Table 2.

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Table 2: Sample Size Distribution

Strategic Departments	Locally Owned Banks 70% of Total		Foreign Banks 30% 0f Total		Sample Size
	Population	Sample	Population	Sample	
Human Resource Management	153	11	69	4	15
Operations Management	204	14	92	6	20
Credit Management	244	17	110	7	24
Deposits Operations	167	12	75	5	17
Mortgage Banking	115	8	51	2	10
Investment Banking	138	10	64	4	14
Electronic Banking	111	8	50	2	10
Customer Service	219	15	98	6	21
Information Technology	143	10	62	4	14
Accounts/Finance	114	7	51	2	9
Total	**1608**	**112**	**722**	**42**	**154**

3.4 Data Collection instruments

The study used primary and secondary data collection method. A questionnaire instruments was used in the collection of data. According to Kothari (2012) the questionnaire is the most appropriate instrument due to its ability to collect a large amount of information in a reasonably quick span of time and economical manner.

3.5 Data Analysis and presentations

The researcher was analyzed the collected data by using both qualitative and quantitative techniques. Qualitative data from open-ended questions were analyzed using content analysis techniques. Quantitatively was descriptive statistics such as, tables, percentages, and frequencies and mean scores. The result obtained helped in determining the relationship between the independent and the dependent variables.

$Y=\beta 0+\beta_1 X_1+\beta 2X_2+\beta 3X_3+\varepsilon$
Where:
Y= performance of Commercial banks

($\beta 1$; i=1, 2, 3,) = Regression coefficients values

(X1; X2; X3; i=1, 2, 3,) = values of various independent variables

X1 = technology strategy

X2 = customer orientation strategy

X3 = Quality of services strategy

ε = composite error term

IV. RESULTS AND DISCUSSION

4.1 Response Rate

The response rate of the respondents is expressed and as indicated, the number was sufficient enough to support requisite analysis of data and could be relied upon to make accurate findings and conclusions. Out of the 154 questionnaires administered, only 140 were completed and returned and therefore used in the analysis representing 90.9% response rate. According to Mugenda (2003), a response rate of above 70% is acceptable in research. Babbie (2004) asserted that return rates of 50% are acceptable to analyze and publish, 60% is good while Fowler (2013) stated that 70% is very good. The high response could be attributed to self-administration of the instruments.

4.2 Inferential Analysis

This section shows inferential statistics used to show the relationship that exists between the dependent and the independent variables.

4.2.1 Pearson Correlation Results

According to Kothari (2014), the correlation coefficient can range from -1 to +1, with -1 indicating a perfect negative correlation, +1 indicating a perfect positive correlation, and 0 indicating no correlation at all. A linearity test was conducted as evidenced by the Pearson correlation coefficient. Kothari (2014) further stated that the importance of correlation is to

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determine the extent to which changes in the value of an attribute is associated with changes in another attribute. To ascertain the association between technology strategy, customer orientation strategy and quality of service strategy and performance of commercial banks in Kenya, the study carried out a Pearson's correlation test. The result of overall correlation further indicated that there was no problem of Multicollinearity among the study variables hence all the variables were admissible to be used in the regression model. Further the result showed that technology strategy, customer orientation strategy and quality of service strategy had a positive and significant association with performance of commercial banks in Kenya.

Table 3: Correlation Matrix of the Variables

	Performance	Technology Strategy	Customer Orientation strategy	Quality of Service Strategy
Performance	1			
Technology Strategy	.216**	1		
Customer Orientation Strategy	.455**	.581**	1	
Quality of Service Strategy	.599**	.690**	.386**	1

** Correlation is significant at the 0.05 level (2-tailed)

Based on the results, it is found that technology strategy, customer orientation strategy and quality of service strategy are positively and significantly correlated to the performance of commercial banks. Quality of Service Strategy had the best correlation with performance of (r=0.559). This implies that the presence of quality of service strategies in the operations of commercial banks business is a vital variable in the successful performance. Customer Orientation Strategy is the second best and with a moderate positive correlation (r= 0.455) to performance of commercial banks in Kenya. Technology Strategy is the third best construct with a weak positive correlation of r = 0.216. The three customer management strategies constructs (technology, customer orientation and quality of service) are also said to be positively and significantly auto-correlated.

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4.2.2 Regression Results

The study also required regression analysis so as to establish the relationship between technology strategy, customer orientation strategy and quality of service strategy and whether they are significant in influencing the performance of commercial banks in Kenya.

Table 4: Model Summary - Overall

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate	Durbin Watson
1	0.778	0.605	0.597	0.45080	1.640

Table 4 presents the coefficients of model fitness on how customer management strategies explain performance. The three customer management strategies have an overall correlation with performance of commercial banks of 0.605 which is strong and positive. The 3 customer management strategies that are included in the model explain 59.7% of the changes or variations in performance of commercial banks in Kisii County. This shows that 40.3% of the variations in performance is explained by other factors not captured in the model. This presents an opportunity for future studies to include additional customer management variables that could influence performance of commercial banks.

Table 5 shows the overall significance of the regression estimation model. It indicates that the model is significant in explaining the relationship between customer management strategies and performance in commercial banks in Kisii County at a 5% level of significance. The analysis of variance of the predictors of the model have a significance is 0.000 and fails to accept the null hypothesis and conclude that customer management strategies have a positive influence on performance in commercial banks in Kisii county.

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Table 5: ANOVA Overall

ANOVA						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	61.121	3	15.280	75.191	.000
	Residual	39.831	136	.203		
	Total	**100.951**	**139**			

Table 6 shows the regression coefficients of the individual independent variables. The results indicate that all the variables are significant in explaining the performance of commercial banks in Kisii County. This leads us to fail to accept the null hypothesis and conclude that all the variables have a positive influence on performance of commercial banks in Kisii County.

Table 6: Regression Coefficients

Coefficients[a]						
		Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
Model		**B**	**Std. Error**	**Beta**		
1	(Constant)	1.257	.203		6.195	.000
	Technology Strategy	.153	.048	.173	3.160	.002
	Customer Orientation strategy	.256	.065	.270	3.915	.000
	Quality of Service Strategy	.378	.058	.446	6.538	.000

4.2.3 Optimal Model Summary

Based on the findings, the dependent variable (Performance of commercial banks) and the independent variables (technology, customer orientation and quality of service strategies) is therefore connected by the equation:

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \varepsilon$

Where Y, X1, X2 and X3 represented Performance, Technology Strategy, Customer Orientation Strategy and Quality of Service Strategy respectively.

The regression results were therefore interpreted as follows:

$Y = 1.257 + 0.153X1 + 0.256X2 + 0.3378X3$

The regression coefficients for the Performance show that holding technology, customer orientation and quality of service strategies constant, Performance will be 1.257. The findings presented also shows that taking other independent variables at zero, a unit to increase in Technology Strategy will lead to 0.153 increases in performance, and Customer Orientation Strategy will lead to 0.256 increase in Performance; Quality of Service Strategy will lead to 0.378 increase in Performanceat 5% level of significance and 95% level of confidence.

V. CONCLUSION AND RECOMMENDATIONS

Technology strategies are key to performance in commercial banks; Banks must embrace the latest technology for competitive advantage. Technology is constantly and as consequently, offers a diversity of systems for engaging in businesses to accomplish customer relationships competently and effectively. Strategic utilization of technology infrastructure gives banks the capability to monitor and evaluate purchasing habits of present customers, those customers of the future and groups of customers. Technological systems also provide banks with a platform to gain competitive and strategic advantage when they invest in the latest security systems and make bank processes faster and easier for their customers.

Customer orientation strategy leads to increased organizational performance in commercial banks thus the management should see customer orientation strategy as one of the market beneficial sources. It helps organization to understand the customer and hence it helps in delivering an appropriate plan to satisfy customer needs. Through customer orientation, the bank management should spare some time to spend and interact with their customers so as to get some feedback on the expectations of their services and what they actually get in the bank.

Quality of service strategies enhances performance in commercial banks; Competition in the contemporary service business is intensifying and it is vital for the service sector to understand service quality as a factor of strategic competitiveness. Consequently, service quality should be looked at as a distinctive approach to service competition. While competitive service strategies may be different, they should also be based on service quality, considering variance in servicing customers' needs, purchasing behavior and consumption patterns.

Based on the results of the study on the effects of Customer Management Strategies on the performance of Commercial banks in Kisii County;

The study recommends that banks have budgets specifically for technology upgrading and training of staff to on technology use. The study also recommends that the government should provide and invest in modern technology infrastructure in order for the banking industry to leverage on especially the provision of internet throughout the country and make investment in technology systems and security systems cheaper. The commercial banks should allocate more resources to customer relationships as this will lead to loyal customers. The loyal customers will in turn market the banks to new customers and hence lead to improved performance in the banking industry.

The study further recommends the hoteliers to employ staff who are fully trained in the banking industry and also recommends the need for standardization of the training curriculum for service providers in the banking industry. This will ensure that the employees in the Industry are highly professional and match the international standards. This will generate a caliber of employees who have excellent customer service leading to improved service quality and eventually improved performance.

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