INFLUENCE OF CUSTOMER RETENTION PROCESS ONPROFITABILITY INTHEBANKING INDUSTRY: A CASE OF KENYA COMMERCIAL BANK

JAMES MWITHIA MURIERA

A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF BUSINESS AND ENTREPRENEURSHIP IN THE SCHOOL OF BUSINESS AND ECONOMICS IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF SOUTH EASTERN KENYA UNIVERSITY.

2015

DECLARATION

This report is my original work and has not been presented for a degree in any other University

---------------------------- ----------------------

James MwithiaMuriera   Date

D61/MTI/20208/2012

RECOMMENDATION

This report has been submitted with our approval as University Supervisors

--------------------   ----------------------

Dr.JoashMigosi   Date

Lecturer

University of Nairobi

Mr. ZablonEvusa   Date

Lecturer

South Eastern Kenya University

DEDICATION

I dedicate this research project to my family for their support and bearing with me during this process. I will remain forever grateful.

ACKNOWLEDGEMENT

I owe a great intellectual debt to my brilliant lecturers, in particular Dr.Joash Migosi and Mr. ZablonEvusamy project supervisors for their constant guidance.

My gratitude also goes to my friends and fellow students Anthony Mbithi and Daniel Ngundo from whom I received encouragement and advice.

Finally my heartfelt gratitude to my employer for not only giving me financial support but also allowing me time to do the work.

ABSTRACT

Customer retention is reflected on three crucial business attributes which include increased revenue, lower customer acquisition costs and increased referrals. Today, with rising customer acquisition costs, businesses are getting innovative and starting to take a proactive role in retaining their clients. Experts in service recovery and customer retention have documented that when service providers succeed in getting a high Customer retention, they not only attract more customers but they also increase their Customer loyalty which results to high business profitability. In addition, attracting and retaining new customers goes beyond the products and services to include how the service provider treats the existing customer to create a competitive advantage within and across the market place. The objective of this study was to find out the influence of customer retention processes on financial performance of KCB.The purpose of the study is to provide in-depth information for organizations on the influence of customer retention processes on financial performance especially the banking industry. The study has outlined and discussed customer retention processes. The study used descriptive design and the target population were KCB staff based at KCB Branches based in Nairobi region. The research instrument was a questionnaire and the data was collected in KCB Branches based in Nairobi region. A pilot study was carried out to pretest and validate the questionnaire. The data was then analyzed and the findings recorded by use of tables and figures. The process involved tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives through use of SPSS. The study sought to find out which of the business processes impacts customer retention the most. The business processes in order of popularity were Service guarantee, Loyalty/reward programs, Complaint management, Employee satisfaction and Service recovery.The study found out that an increase on the amount spent on customer retention there was an increase in profit. This shows that the higher the amount spent on customer retention, the higher the profit. Hence, this study concludes that customer retention has a positive impact on institutions profitability For effective future service recovery processes, this study calls for KCB to do a pre-operative assessment, planning and preparation of all initiatives as well as centralize system on customer complaints. In addition, the bank will have to ensure that customers fully understand the bank processes and have timely updates and responses to customers to build customer trust and improve service guarantee. Lastly the study recommends that the management should always pay attention to employee feedbacks on complaint resolutions and the way forward and restructure the flexibility of bank processes to reduce bureaucracy.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ACRONYMS

KCB – Kenya Commercial Bank

SLA - Service Level Agreement

SPSS – Statistical Package for Social Scientists

TAT – Turn Around Time

CHAPTERONE

INTRODUCTION

1.1 Background of the Study

In any given economy, service providers always aim at creating memorable and valuable service experiences to Customers. This is done in their endeavor to satisfy their Customers and maintain long-term Customer relations (Pine & Gilmore, 1998; Haeckel, 2003). Customer retention refers to the actions companies take to always provide the service Customers expect in order to reduce the number of customer defections, which makes it relevant for managers in any industry or organization that provides some sort of service to external or internal Customers. The benefits of customer retention are reflected on three crucial business attributes: increased revenue, lower customer acquisition costs and increased referrals. With rising customer acquisition costs, businesses need to get innovative and start taking a proactive role in retaining their clients.

The entire process of customer retention starts from the initial contact with the customer and continues in all customer interactions within the time frame the relationship is held between the service provider and the client. When service providers succeed in getting a high Customer retention, this not only attracts more customers but also increases Customer loyalty hence resulting to high business profitability. Attracting and retaining new customers goes beyond the products and services to include how the service provider treats the existing customer to create a competitive advantage within and across the market place (Tax, Brown &Chandrashekaran, 1998).

However, customer retention is greatly based on service experience which is composed of a set of service encounters. In other words, customer retention can be affected by many factors including service operation, service quality, Customer expectation etc. customer retention goes beyond giving the customers what they expect to include exceeding customer expectations to ensure that the customers become brand royals of the company products. Delivering a high-quality service experience in the endeavor to retain customers is very complicated and needs to be carefully designed and managed. Once customer royalty is build, customer value becomes the center of business strategy as compared to profit maximization (Yagil, 2002).

Experts in marketing recommend five ways that can be used to increase customer loyalty that can help in achieving maximum customer retention. The first method involves being proactive and taking the initiative to research on products and service of your competitors and comparing their business and marketing strategies as well as pricing with what you are currently offering. This ensures that the gap is lowered and equilibrium can easily shift to your advantage. Another initiative may involve the management talking with the employees on issues that frequently affect the customer needs and wants since the employees are on the front line and interact with the customers on daily basis. Talking to customers from time to time as well as surveying both new and repeat customers ensures that the management can effectively track the effectiveness of their business strategies. In addition, monitoring customer comments or complaints on the company social media sites can help the management on getting up-to-date information on their products and services. Lastly, rewarding repeat customers makes the customers feel valued and appreciated and the likelihood of them inviting or recommending friends and relatives is high and this in turn has a positive impact on the profit margins (Johnston, 1995).

Other customer retention processes that have proved worth being initiated include setting out customer expectations through service level agreements (SLAs) to ensure that customers are aware of timeframes for each service. Another customer retention process is being an expert in whichever industry you are as this goes a long way in retaining more customers. Building trust through relationships between the company and the customers increases trust and commitment tends to get stronger hence retaining more customers. Automation can be used to replace manual processes in order to focus more time on minimizing downtime and keeping clients networks performing at their best. Embracing technology alloyed with the introduction of social media sites can see an organization form an online community to share perceptions on the organizations products and services (Yagil, 2002).

The banking industry deal with the provision of services and customer retention is a challenge as a result of service failures. Service failures mean that service providers have lower service performance, which can’t meet customer expectation (Hoffman and Bateson, 1997). In the moment of service failure, customers always get dissatisfaction and feel uncomfortable and chances of the once royal customers switching to the competitor are high. Hence, service providers have to implement customer retention processes for Customers during service experience delivery. The main purpose of service recovery is to execute some actions to find Customer dissatisfaction and response to errors and mistakes. Hart (1990) proposed that an appropriate customer retention approach can alter angry and dissatisfactory customers to be loyal ones.

Service providers deliver appropriate services that Customers can join in order to create high values together. Consequently, there are still a lot of encounters that Customers can touch in the customer retention process. Underlying service-dominant logic service providers can design and manage appropriate services for better customer retention experiences. Service providers have potential opportunities to involve Customers in the customer retention process by employing innovative services.

Service providers are today forced to come up with customer retention strategies to ensure that their customers build trust with them and that incase of future customer dissatisfaction, the service provider is assured of retaining the same customers. Very few organizations are aware of customer retention processes and the fast growing competition between service providers in Kenya has seen organizations lose Customers to their competitors even in the event of a minor system down turn. Colgate & Norris (2001) identified three reasons why as to why customers may leave an organization: 68% leave because they were unhappy with the service they received, 14% were unhappy with the product or service and 9% decided to use a competitor. This shows that customer service forms the larger part of customer retention.

Lastly, marketing experts have established that service recovery, employee satisfaction, complaint management, loyalty/ rewards programs and service guarantee create avenues for customer retention that leads to a positive financial performance of the organization. Today service organizations are shifting their focus from transactional exchange to relational exchange for developing mutually satisfying relationship with customers. These extended relationships are reported to have a significant impact on transaction cost and profitability, and customer lifetime value.

1.1.1 Overview of KCB Bank Group

The history of KCB dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa. Eight years later in 1904, the Bank extended its operations to Nairobi, which had become the Headquarters of the expanding railway line to Uganda. The next major change in the Bank's history came in 1958. Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank. Upon independence the Government of Kenya acquired 60% shareholding in National &Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the Government acquired 100% of the shares to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was renamed Kenya Commercial Bank. In 1972, Savings & Loan (K) Ltd was acquired to specialize in mortgage finance. In 1997, another subsidiary, Kenya Commercial Bank (Tanzania) Limited was incorporated in Dar-es-Salaam, Tanzania to provide banking services and promote cross-border trading. Since then, the subsidiary has 11 branches.

In pursuit of its Vision: To be the preferred financial solutions provider in Africa with a global reach, in May 2006 KCB extended its operations to Southern Sudan to provide conventional banking services. The subsidiary has 19 branches. The latest addition into the KCB Family came in November, 2007 with the opening of KCB Bank Uganda Limited which has 14 branches. In December 2008 KCB Rwanda began operations with one branch at Kigali. There are currently 9 branches spread out in the country. In 2010 S&L was merged with KCB providing access to mortgage finance through the bank's wide branch network of 222 branches with a total of about 5492 employees.

1.2 Statement of the Problem

The importance of developing a mutually beneficial ongoing buyer-seller relationship as an avenue for customer retention has been emphasized in marketing literature (Crosby, Evans, & Cowles, 1990; Dwyer, Schurrn and Oh, 1987; Gwinner, Gremler and Bitner, 1998; Gundlach, Achrol and Mentzer, 1995). Norman (2000) cited that to acquire a new customer cost the organization five times the cost the company uses to satisfy and retain the current customer. He further notes that a 2% increase in customer retention has the same effect as decreasing costs by 10% and that depending on the state of any industry, if an organization reduces customer defection rate by 5%, this can on the other hand increase the organization’s profitability by 25 to 125%. Although the positive impact of customer retention on satisfaction, loyalty, and recommendation has been well documented empirically by some service providers in Kenya, evidence suggests that customer retention practice has not improved. Although KCB is aware of the overall goal of customer retention and has made some efforts to identify Customers with issues to address them to the Customers' satisfaction in order to promote Customer retention, it’s unfortunate that customer retention in KCB has not been fully achieved.Although a number of studies have been done on customer retention and its impacts on business, a knowledge gap still exists. None of the studies has focused on customer retention processes at Kenya Commercial Bank. The aim of this study is therefore to study the effectiveness of customer retention processes on financial performance of KCB.

1.3 Objectives of the Study

1.3.1 The General Objective

The general objective of this study is to find out the influence of customer retention processes on profitability of KCB.

1.3.2 Specific Objectives

1. To find out how service recovery affects profitability of KCB.
2. To establish how employee satisfaction affects profitability of KCB.
3. To findouthow complaint management affects profitabilityof KCB.
4. To establish how loyalty/reward programs affects profitabilityof KCB.
5. To find out how service guarantee affects profitabilityof KCB.

1.4 Research Questions

The research seeks to answer the following questions;

1. How does service recovery affects profitability of KCB.
2. How does employee satisfaction affects profitabilityof KCB.
3. How does complaint management affects profitabilityof KCB.
4. How does loyalty/reward programs affects profitabilityof KCB.
5. How does service guarantee affects profitabilityof KCB.

1.5 Significance of the Study

This study aimed to highlight customer retention processes and the benefits that accrue to the organization. In theory, an organization's implementation of customer retention processes has the potential to either restore customer satisfaction or aggravate customers' negative evaluations and drive them to switch to a competitor. Therefore, it is important to understand what constitutes successful customer retention and how it affects the organization's financial performance. The study will contribute practice in that it will outline and discuss the pitfalls of customer retention and effectively let the player(s) in this field have a grip of how they can be able to improve the implementation of customer retention processes.

To KCB, the study is significant because KCB is a service industry where by Customer satisfaction and retention is important. The study will give insights into employee behavioral attributes, perceptions and response regarding customer retention. The study will come up with a recommendation report which can be implemented by the bank to improve its customer retention not only in Kenya but in all its countries of operation. To the Academician it will provide information and a stepping stone for further research in this new field of study.

1.6 Scope of the Study

This research was carried out at KCB branches in Nairobi region. The target population was KCB staff both at managerial posts and clerical posts. Data was carried out with the aid of a questionnaire with detailed enquiries on customer retention and financial performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview of the Service Industry

The service industry is characterized in four dimensions namely intangibility, inseparability, heterogeneity and perishability. Intangibility is a fundamental characteristic of service. Zeithaml, Parasuraman& Berry (1990) claimed that intangibility is the fundamental factor that differentiates service and goods. In consideration of the tangible objects, i.e. products or goods, involved in a service encounter, a customer can use physical attributes such as sight, touch, sound and taste, to evaluate the quality and to determine their degree of satisfaction with the product or goods. However, a customer is unable to utilize their physical attributes to judge the quality and their satisfaction with the intangible aspect to the service encounter (Berry, 1995).

Consequently, the intangible aspect to the service is dependent upon the employee's ability to interact with the customer and satisfy the customer with the personalization and emotional element that makes the service encounter exceptional. In reference to the inseparability characteristic, in most service encounters, the provider is present when the service is being delivered and consumed. Therefore, customers are often physically involved and become a vital part of the service delivery process. Thus, the quality of the service depends on the provider's performance as well as the customer's participation (Kelly, Donnelly, and Skinner, 1990), and the delivery of the service becomes a human performance that the customer is inseparable from (Zeithaml, Parasuraman, & Berry 1990).

Within the service industry, the evaluation of past service encounters tends to influence the customer's attitude and intentions when preparing for an upcoming service encounter. Zeithaml, Parasuraman& Berry (1995) referred to heterogeneity as a remarkable phenomenon. The Customer's overall evaluation of a service encounter does not rest solely on the processing of tangible attributes or the intangible elements from the service provider but instead on a combination of the above, paired with the customer's mood, emotions and attitudes (Kardes, 1999). The challenge to heterogeneity is the fact that many service providers strive to engender loyalty by from their existing customer base; therefore, service organizations tend to confuse customer satisfaction with customer loyalty. However, in order to engender loyalty, a customer must be satisfied with the service organization in good times and challenging times.

Heskket, Jones, Loveman, Sasser and Schilger (1994) found that relying on the customer's satisfaction with a specific service transaction does not necessarily mean that the customer will be satisfied enough to return or recommend the service. In fact, their research on the Service Profit Chain revealed that the weakest link in the chain was between satisfaction and loyalty. Thus, suggesting that a satisfied customer does not necessarily develop into a loyal Customer.

The final characteristic of the service industry is perishability. Simply put perishability means that the services are time sensitive and service providers have a small, distinct window of opportunity to delivery service excellence and meet the customer's expectations. Once again, Zeithaml, Parasuraman and Berry’s (1985) definition of perishability stating that, unlike products that can be stored or reinvented for future orders, services cannot be returned, recaptured or recreated; only repeated. Industry projections suggest that the service industry will continue to dominate the Kenyan workforce as well as the economy. In consideration of the above, service providers must continuously strive to create a balance in their approach to service excellence to achieve customer retention. A balance of the characteristics of the service industry seems to be the most reliable approach to delivering quality service, creating satisfied Customers and maintaining a competitive advantage.

2.2 Theoretical Foundation of Customer Retention

Theoretical frameworks used in studies of customer retention include the social exchange theory, equity theory, attribution theory, disconfirmation paradigm, and justice (fairness) theory.

2.2.1 Social Exchange Theory and Equity Theory

Studies exploring customer's evaluation of service recovery efforts have used the social exchange theory and the equity theory (Blodgett et al., 1993; Goodwin and Ross, 1992; Kelley and Davis, 1994). These two theories assert that the exchange relationship should be balanced (Adams, 2008). The social exchange perspective is based on the view of equal partners (e.g., spouses, coworkers) in an exchange (Oliver, 1997). In purchasing and consumption situations, a consumer’s sense of injustice generally results from perceived unfairness compared with either one’s expectations or other comparison standards (Oliver, 1997). Service failures can be viewed as customers’ economic loss (e.g., money, time) and/or social loss (e.g., status, esteem) in an exchange (Smith et al., 1999).

Consequently, customers consider the failure situation as a negative inequity and will attempt to balance equity with post-purchase behavior (Lapidusand Pinkerton, 1995). Service providers attempt to recover the balance by offering customers economic value in the form of compensation (e.g., a discount) or social resources (e.g., an apology) (Smith et al., 1999). A summary of the equity/inequity of consumers' own inputs compared to the outputs leads to perceived justice. Then the consumer forms a satisfaction/dissatisfaction judgment based on the level of perceived justice (Andreassen, 2000).

2.2.2 Attribution Theory

Customers' judgments about the cause and effect attribution influence their subsequent emotions, attitudes, and behaviors based on the three dimensions of causal attributions: locus, controllability, and stability (Swanson and Kelley, 2001). Attribution theory has been applied for explaining customer responses to product and service failures (Folkes, Koletsky, & Graham, 1987). Researchers have emphasized the mediating roles of attribution influences (Folkes et al., 1987; Yi, 1990). In general, dissatisfied customers who consider the cause to have an external locus and to be stable and controllable are more likely to exit and to engage in negative word-of-mouth behavior than those who consider that the problem is unlikely to recur and is uncontrollable (Blodgett et al., 1993; Folkes, 1984).

2.2.3 Confirmation/Disconfirmation Paradigm

Customer satisfaction/dissatisfaction is defined as the difference between an individual's pre-purchase expectations and post purchase performance of the product or service (Patterson, Johnson, &Spreng, 1997). The confirmation/disconfirmation paradigm (Oliver, 1997; Oliver and Bearden, 1995) has provided the conceptual framework for many customer satisfaction/dissatisfaction studies. The paradigm consists of three basic elements: expectations, perceived performance, and whether performance meets expectations (Boshoff, 1997). Clow,
Kurtz, and Ozment (1996) indicated that consumers develop expectations primarily through image, satisfaction with past service experience, word-of-mouth communications received from others, tangible cues, and price structures. Perceived performance is the customer's recognition of performance (Vavra, 1992).

There are two types of performance: objective and perceived. Perceived performance and objective performance are defined as the customer's recognition of performance and conformation to the specific design, respectively. Perceived performance is used most often because objective performance is not easily operationalized; it varies from customer to customer (Vavra, 1992). Positive disconfirmation occurs if the performance of products or services is better than expected. On the other hand, negative disconfirmation results when the performance is worse than expected, which in turn contributes to possible dissatisfaction (Boshoff, 1997).Disconfirmation paradigm also has been used in the evaluation of service recovery (McCollough, Berry, and Yadav, 2000). Customers establish expectations for recovery efforts from service provider (Kelley and Davis, 1994;

RuyterandWetzels, 2000). Once a dissatisfied consumer seeks redress, the evaluation of recovery efforts is dependent primarily upon the consumer's perception of justice or fairness (Blodgett et al., 1993). Justice or fairness is evaluated in terms of the other party's performance on the expected role dimensions (Oliver, 1997). Little attention has been given to equitable treatment in consumption because the comparison standards are individualistic in fairness judgments (Oliver, 1997).

2.2.4 Justice (Fairness) Theory

A three-dimensional view of the justice (or fairness) concept has evolved from the equity theory: distributional justice (the perceived fairness of tangible outcomes), procedural justice (the perceived fairness of the procedures delivering the outcomes), and interactional justice (the perceived fairness of interpersonal manner in the enactment of procedures and delivery of outcomes) (Blodgett et al., 1993; Clemmerand Schneider, 1996; Smith et al., 1999; Tax et al., 1998). The notion of fairness is nearly indistinguishable from equity in that the consumer's sense of fairness is based on what they deserve compared to their input (Oliver, 1997). Many earlier studies focused on the relationship between the inputs and the outcomes of a transaction (Collie et al., 2000; Goodwin and Ross, 1992).

However, consumers are concerned not only with the perceived fairness of the outcome but also with the perceived fairness of the manner in which the complaint is handled (Blodgett et al., 1993) and the process by which resources or rewards are allocated (Conlon and Murray, 1996). The two other fairness dimensions, procedural and interactional fairness, have been used in service recovery evaluation (Goodwin and Ross, 1992; RuyterandWetzels, 2000). The other two forms of justice explain more of the variation in Satisfaction (Oliver 1997). The three dimensions of justice accounted for more than 60% of the explained variation in service encounter satisfaction in a bank setting (Smith et al., 1999).

2.2.4.1 Distributive Justice

Distributive justice refers to the perceived fairness of the actual, tangible outcomes compared to inputs (Blodgett et al., 1997; Oliver, 1997; Palmer, Beggs, Keown-McMullan, 2000). In service recovery, distributive justice focuses on the specific outcome of the firm's recovery effort, such as discounts, coupons, free meals, replacement/reperformance, refunds, store credits, etc. (Blodgett et al., 1997; Hoffman and Kelley, 2000). Input and output in distributive justice evaluation can also include nonmonetary intangibles such as emotions, complaining costs and ego benefits (McCollough, 2000). A positive relationship between the dollar amount and customer satisfaction with service recovery efforts was confirmed in many studies (Boshoff, 1997; Goodwin & Ross, 1992; Hoffman et al., 1995; Megehee, 1994; Tax et al., 1998). Hoffman et al. (1995) found that compensation (e.g., free food, discounts, and coupons) was rated most effective in restaurant service failures as compared to other settings.

Using critical incident technique, Hoffman and Chung (1999) also found that compensatory responses were most favored by customers.

2.2.4.2 Procedural Justice

Consumers are concerned not only with the way resources or rewards are allocated, but also with the process used to resolve conflicts or dispense rewards (Conlon & Murray, 1996). Procedural justice often refers to the perceived fairness of the policies and procedures used by decision makers to arrive at an outcome (Blodgett et al., 1997). Tax et al. (1998) proposed that even though a customer may be satisfied with the type of service recovery strategies offered, the recovery evaluation might be poor due to the process endured to obtain the recovery outcome. The speed of handling problems and complaints was identified as an important dimension of procedural justice (Blodgett et al., 1997; Palmer et al., 2000; Tax et al,1998). On the other hand, Mattila (2001) found that procedural justice, measured as time taken to solve a problem and the flexibility used to deal with problem, was a significant predictor in a bank setting.

2.2.4.3 Interactional Justice

Tax et al. (1998) defined interactional justice as “dealing with interpersonal behavior in the enactment of procedures and the delivery of outcomes”. Interactional justice focuses on the manner in which the complaint was treated (Blodgett et al., 1993; McColl-Kennedy and Sparks, 2003). Interactional justice is often operationalized as a sincere apology versus rude behavior (Blodgett et al, 1997). An apology from the service provider delivers politeness, courtesy, concern, effort, dignity, and empathy to customers who experience service failure, enhancing customers' perception of fairness of the service encounter (Goodwin and Ross, 1992; Kelley et al., 1993; Tax et al., 1998). Apologies should be incorporated into all service recovery strategies as the minimum that would be offered by a service provider (McDougall and Levesque, 1999). Research findings have consistently demonstrated the importance of interpersonal treatment.

2.3 Customer Retention within the Banking Industry

While retaining customers is a stated critical priority for the banking industry and despite the opportunities available with today's technology, many banks are still treating it reflexively - reacting when it may already be too late. Focus on retention is growing steadily in banks, but little actual progress is being made. The urgency to retain customers is growing as: financial institutions face broader competition. In Kenya, mushrooming microfinance institutions are actively seeking banking licenses and can offer significant convenience to their customers, given their broad distribution networks and frequent deposit taking patterns. Sacco's are developing savings account products for their customers.Mergers and acquisitions cause customers to reassess loyalty. Mergers and acquisitions expand customer bases, but holding onto those new customers can be a significant challenge. The product and service changes can often be the catalyst to propel customers out of the inertia they've felt to go and find a new institution. Banks that have been actively acquiring are now recognizing the need to grow wallet share within their new customer base to help retain these customers.

Switching financial providers is easier and this is a big challenge in customer retention within the banking industry. Banks look to online bill pay and broad customer relationships as ways to keep the customer sticky (less likely to leave). But new processes and tools today are facilitating changing institutions. Investment firms obtain one or two signatures from their new clients, and then handle all the asset transfers from the prior company. Banks offer a process to initiate changing a payroll direct deposit directly, rather than having the customer do the work. Even online bill pay has become simpler to set up, with common payees already in a database, requiring the customer to just enter their account number with the vendor.

2.4Customer Retention Strategies

Customer retention involves a series of strategies that must be taken in order to attract and retain customers by ensuring that service providers deliver the expected service first. Different studies have identified and described essential approachesthat can be used to achieve maximum customer retention for profitability.

2.4.1 Service Recovery Process

The real test of the customer orientation of a service provider takes place when service failure has occurred. Ideally, quality should be high throughout and failures should not occur in the service processes. However, in reality employees makes mistakes, systems break down, customers in the service process may cause problem for other customers, etc. Service recovery is a strategy for managing mistakes, failures and problems in customer relationships (Gronroos, 2001). In case of a service failure, the first step is to apologize. It is important for a service provider to apologize and take responsibility for the error. For service recovery to work, it has to happen with the first person the customer telling about the problem. Unfortunately, many employees don’t want to admit that they or their company is wrong, so they lie or make excuses, which irritates the customer even more. One must apologize sincerely on behalf of the company.

Once made aware of the situation, the employee must do whatever is necessary as quickly as possible to solve the problem. That meansthat employees must be empowered. They must be given the authority to bend and break the rules in order to satisfy the customer. Empowerment is the backbone of service recovery, Tschoh(2007) says that it's impossible to be a service leader, to be customer centric and focus on a service strategy without empowering employees. His definition of empowerment is giving employees the authority to do whatever it takes, on the spot, to take care of a customer to ensure customer's satisfaction, not to the organization's satisfaction.

After resolving the problem, one may give the customer something of value as compensation. To simply say you're sorry is nice, but it's not very powerful. You must give the customer something that has value in his eyes, something so powerful that he not only will continue to patronize your business but will tell everyone he knows about the wonderful service you provided to him. Every company has something of value that it can give to a customer who has experienced a problem. It can cost the company from nothing to a few dollars but, as long as it has value in the Customer's eyes, it will be effective (Hoffman and Kelley, 2000).

Another process in service recovery is bringing back the lost sheep. Gronroos (2001) cites that there's little point in dedicating massive resources to generating new customers when 25-60% of the dormant customers will be receptive to the organization's attempts to regenerate their business if it approaches them the right way, with the right offer. Reactivating customers who already know the organization and organization products is one of the easiest, quickest ways to increase revenues. Re-contacting and reminding them of your existence, finding out why they're no longer buying, overcoming their objections and demonstrating that you still value and respect them will usually result in a tremendous bounty of sales and drastically increased revenues in a matter of days and will lead to some of your best and most loyal customers

From this review, it is evident that service recovery is an important customer retention process that can lead to increased revenue to the organization. In addition, service recovery not only builds customer loyalty but it also draws more customers to a business and can drastically reduce a company's advertising budget. Advertising brings a customer once,and the customer experience is what will bring him back to the organization time and time again leading to profit maximization.

2.4.2 Service Guarantee

Service guarantee is cited as effective customer retention. An organization tries to balance its customers' expectations with the delivered service. A service guarantee promises the customers a certain service quality and backs up such promise with a payout, making services more tangible, reducing the perceived risk of purchasing a service. A service guarantee makes the customer a meaningful promise and specifies a payoutand an invocation procedure in case the promise is not kept. Each of these elements is equally important in making a guarantee successful (Looy, GemmelandDierdonck, 2003)

A promise is an attribute of service guarantee. Through introduction of a service guarantee, an organization makes a credible promise to its customers. In defining a promise, a company should be careful not to promise what would be expected anyway. This may negatively signal that service failures are likely to be expected. Some promises are limited in scope i.e. guarantee only less important service aspects or are highly conditional, excluding all major causes of service failure. For example, Kenya Airways guarantees that its customers will make their connecting flights if there are no delays due to weather or air-traffic control problems. Ironically, these two problems cause in total 95% of all flight delays. Furthermore, the guarantee is applicable only if all flights including connecting flights are with Kenya Airways (Kenya Airways, 2007). The presence of a service guarantee can support the perception of service reliability, which is one of the most critical determinants of customer satisfaction.

In a situation where promises are not kept, the customer can receive a payout which will encourage the customer to communicate all service failures, which has a double effect on service recovery and service quality improvement in that the customer who claims his payout is less likely to defect or spread a negative word of mouth and each claim represents valuable information about quality errors and their possible causes. The payout has to be meaningful to customers. It should not only make up for all the damage and inconvenience suffered but also make the customer whole.

The final aspect of the service guarantee is the invocation procedure. Invocating a guarantee should be either easy or proactive. For example, supermarkets Hoogvliet (Netherlands) and Match (Belgium) promise short queues at their checkouts. If all tills are not manned and if some customer is the third one (Hoogvliet) or the fourth one (Match) in the queue, he does not have to pay (Hoogvliet) or receives a significant discount (Match). The invocation of PTT Telecom's guarantee is termed as proactive as well. After each connection or repair, PTT Telecom makes an after-sales call to the customer trying to assess customer's satisfaction. If there is a failure of promise, the customer is immediately informed of the payout (Looy, GemmelandDierdonck, 2003).

All the above attributes on service guarantee show that service guarantee influences customer retention and goes a long way in maximizing profits. When service guarantee is met, customers built trust and the likelihood of them coming back and referring friends and relatives to the products and services is very high. This means increased purchase which positively affects the organizations financial performance.

2.4.3 Employee Satisfaction

Employee satisfaction can easily affect customer retention. Several attributes affect employee's satisfaction in the endeavor to create successful customer retention. One of the attributes is employee empowerment which is described and defined in many ways but is generally accepted as the process of enabling an employee to think, behave, act, react, and control their work in more autonomous ways, as to be in control of one's own destiny. Empowerment in the workplace is an often-misunderstood concept. Employee empowerment is a term that many managers and organizations think they understand, but few actually do, and even fewer really put into practice. Many managers feel that by empowering employees, they relinquish the responsibility to lead and control the organization. Effective employee empowerment not only has positive implications for employee satisfaction, but also many other organizational facets, such as customer service and retention.

Employee training and programs is another attribute to employee satisfaction. A common mistake made by many organizations is the failure to adequately invest in the continued training of their employees after they are hired. One of the biggest factors in employee satisfaction or loyalty levels is the amount of training and development companies provide.

Employee interaction in the workplace contributes to a successful employee satisfaction.
Trust and a positive work environment are important elements in developing interpersonal relations at work (Billikopf, 2006). Employees gauge how they are regarded by management in many ways, but the words that managers' use and the way they are delivered are critical to employees' perceptions of whether they are respected or disrespected. A multitude of job satisfaction surveys indicate that when employees are treated with respect by the management of an organization, the organization reaps the

benefits of increased retention, increased productivity, and an overall increase in job performance. However, When employees do not feel respected the results are correspondingly negative (Pounds 2006).

Lastly, due to escalating costs, family needs, retirement, flexibility and a myriad of other personal desires, an employees' benefits package has become an important part of their job, as well as their level of commitment to and satisfaction with the organization they work for. Because of the costs involved, many organizations today have to make a choice: Offer an attractive benefits package and forgo profits, or cut back on employee benefits and risk harming employee morale or even losing good employees. With the ability to maintain qualified and satisfied workers at a premium today, providing attractive benefits to employees is an important consideration for any organization. Due to an exponentially increasing economy and a growth in new businesses, employees in many cases, have the advantage in employment negotiations (Ruddy, 2001).

In addition, to maximize productivity and efficiency in the workplace, employees must be motivated. When employees feel motivated they are more creative, more efficient, and most importantly, satisfied with their work and the organization that they work for. An organization's level of understanding of how to motivate its employees can be considered directly related to the level of productivity and employee satisfaction realized at the organization. Another beneficial result of increased employee satisfaction is the potential for employees to exhibit more creativity and innovation. It has been found that increased levels of creativity and innovation in employees have a positive effect on the corporate profitability of an organization.

2.4.4 Loyalty/ Rewards Programs

There is ample evidence that a loyalty program can stimulate purchase behavior which leads to customer retention. For example, when safaricom, a Kenyan based telecommunication company, introduced a guest loyalty program aboutseven years ago, it helped the company focus on the most profitable group of customers and reduced the weight of brand positioning, changing the nature of competition in the telecommunication industry (Safaricom, 2013). Bolton, Kannan, and Bramlett (2000) discovered that loyalty programs can positively reinforce purchase behavior via a virtuous cycle: more experience with the product stimulates more usage, and more usage leads to more experience. They observed that loyalty programs had complex effects on customer behavior.

Members of the loyalty programs are more forgiving of billing errors and exhibited more stable behavior over time (because they were less affected by perceived losses or gains from previous transactions). The authors concluded that loyalty reward programs have the potential to operate as a form of mass customization that strengthens customers' perception of the company's value proposition. Moreover, Kivetz and Simonson (2003) found that a key factor affecting consumers' response to loyalty programs is their perceived relative advantage or idiosyncratic fitwith consumer conditions and preferences. When consumers believe they have an effort advantage over others, higher program requirements magnify this perception and can increase the overall perceived value of the program.

However, the dark side of loyalty programs is that some programs fail to contribute to the creation of customer base or build brand loyalty. They primarily discount prices, thereby eroding future profits (ReichheldandSasser, 1990). Furthermore, customers who respond primarily to value propositions, even though satisfied may actually provide little value for the company (Gummesson 2002). Lastly, Kivetz and Simonson (2003) research suggests that relationship marketing efforts such as direct mailings and customer loyalty reward programs increase customer retention and share of wallet when they influence customers' affective commitment, rather than their calculative commitment, which has an economic basis.

2.4.5 Pro-active Complaint Management

The importance of handling customer complaints effectively has been demonstrated in many studies. Kivetz and Simonson (2003) observed that if customers are satisfied with the handling of their complaints, dissatisfaction can be reduced and the probability of repurchase can be increased. Furthermore, effective complaint handling can have a dramatic impact on customer retention rate, deflect the spread of negative word-of-mouth, and improve profitability (Tax, Brown, andChandrashekaran, 1998). Service entities could increase their profits up to 85% by reducing the customer defection rate by 5% (ReichheldandSasser, 1990). Customer loyalty can be increased by encouraging consumers to complain.

Hoffman and Kelly(2000) cite that 96% of dissatisfied customers don't complain. They just walk away, and you'll never know why. That's because they often don't know how to complain, or can't be bothered, or are too frightened, or don't believe it'll make any difference. Whilst they may not tell you what's wrong, they will certainly tell plenty of others. A system for unearthing complaints can therefore be the lifeblood of your business, because customers who complain are giving you a gift, they're still talking to you, they're giving you another opportunity to return them to a state of satisfaction and delight them and the manner in which you respond gives you another chance to show what you're made of and create even greater customer loyalty.

Kivetz and Simonson (2003) observed that if Customers are satisfied with how their complaints are handled, their dissatisfaction can be reduced, and the probability of repurchase is increased. Furthermore, effective complaint handling can have a dramatic impact on the Customer retention rate, deflect the spread of negative word-of-mouth, and improve profitability (Tax, Brown, &Chandrashekaran, 1998). Inadequate and/or inappropriate company responses to service failures and mishandling of Customer complaints influence not only the affected Customers but also their friends and families via negative word-of-mouth communication (Hoffman & Chung, 1999; Hoffman & Kelly, 2000).

2.5 Conceptual Framework

The following figure show how the independent variables derived from the study affects profitability, the five variables have an impact on profitability especially within the service industry.

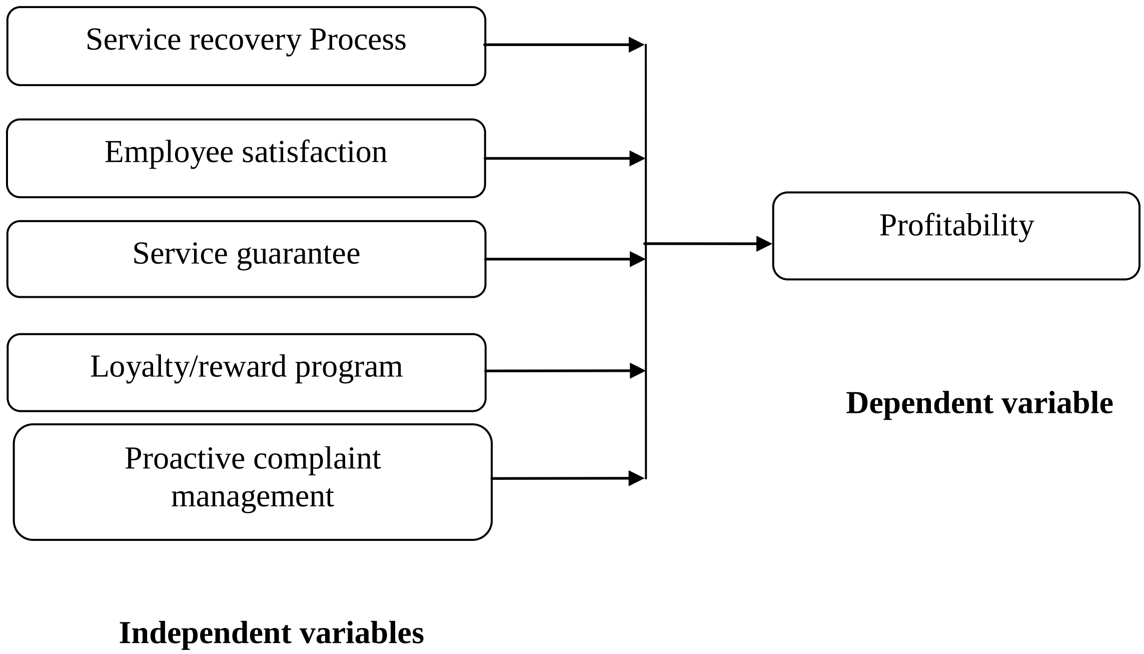

Figure 2.1: Conceptual Framework

2.6 Literature Overview

The literature has established that service recovery, employee satisfaction, complaint management, loyalty/ rewards programs and service guarantee create avenues for customer retention which leads to a positive financial performance of the organization. The literature has also established that the rationale for customer retention is that it improves business performance by enhancing customer satisfaction and driving up customer loyalty. There is a compelling logic to the model, which has been dubbed the satisfaction-profit chain (Anderson and Mittal, 2000). Satisfaction increases because customer insight allows companies to understand their customers better, and create improved customer value propositions. As customer satisfaction rises, so does customer repurchase intention (Anderson, 1994). This in turn influences actual purchasing behaviour, which has a significant impact on business performance(Buttle, 2004).

The literature has also established that loyalty behaviors, including relationship continuance, increased scale or scope of relationship, and recommendation (word of mouth advertising) result from customers' beliefs that the quantity of value received from one supplier is greater than that available from other suppliers. Loyalty creates increased profit through enhanced revenues, reduced costs to acquire customers, lower customer-price sensitivity, and decreased costs to serve customers familiar with a firm's service delivery system (Reicheld&Sasser, 1990). Yi's critical review of customer satisfaction (1990) concludes that many studies found that customer satisfaction influences purchase intentions as well as post-purchase attitude.

From the literature, it is evident that today service organizations are shifting their focus from transactional exchange to relational exchange for developing mutually satisfying relationship with customers. Extended relationships are reported to have a significant impact on transaction cost and profitability, and customer lifetime value. Serving the customers, in true sense, is the need of the hour as the customer was, is and will remain the central focus of all organizational activities. The banking industry, especially the fully pledged banks needs to be purely customer-centric and focus on the customer needs and duly fulfill them.

Modern marketers are now rediscovering the ancient mantras for success in corporate world and blending them with contemporary marketing practices. Long term survival and competitive advantage can only be attained by establishing an emotional bond with the customers. A shift is taking place from marketing to anonymous masses of customers to developing and managing relationships with more or less well known or at least some identified customers (Gronroos, 1994).

2.7 Research Gap

The following observations were made from the literature. Much of the empirical studies carried out have been done in the developed countries and have been conducted on the general importance of customer, this study seeks to fill the existing research gap by conducting a study to determine the role customer retention on financial performance of banking sector in Kenya which is a developing country. In specific, it will address the role of service recovery, employee satisfaction, complaint management, loyalty/ rewards programs and service guarantee on the financial performance of banking sector in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in the collection, measurement and analysis of data. Specifically the following subsections are included; research design, target population, data collection instruments, data collection procedures and the data analysis.

3.2 Research Design

The design for the study was a descriptive research. The researcher intended to describe the state of affairs of the problem of investigation. The design is appropriate for the study because the manipulation of independent variables such as sex, age, professional qualifications and working experience will not possible since the variables have already manifested themselves. Cooper and Schindler (2006) stated that research design is the manner in which data is collected, measured and analyzed in order to achieve certain research objectives. Chandran (2004) stated that the research design is a way to accomplish the research objectives through empirical evidence that is obtained economically. The considerations that determine the research design to be used include: research purpose, categories of data required, data sources and the cost implications.

3.3 Target Population

For purpose of this study the targeted population was stratified through top management level, middle level managers and low level management. The target population was composed of 486 members of staff in different levels currently working at the Kenya Commercial Bank Nairobi branches. This population suits the research in view of determining the role of customer retention on financial performance of banking sector in Kenya. As a result, they are well conversed the role customer retention on performance of banking sector in Kenya.

Table 3.1: Target Population

Category	Frequency	Percentage
Top Management	35	7.2
Middle Level Management	169	34.8
Low Level Management	282	58.0
Total	486	100.0

Source: KCB HR, 2014.

3.4 Sampling Procedure

Ngechu (2004) emphasizes the importance of selecting a representative sample by use of a sampling frame. From the sampling frame, the required number of subjects, respondents, elements or firms is selected in order to make a sample. Stratified random sampling technique was used to select the sample. According to Deming (1990) stratified random sampling technique produce estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. Stratification aims to reduce standard error by providing some control over variance. From each stratum the study used simple random sampling to select 97 respondents; this was 20% of the entire population, According to Mugenda and Mugenda (1999), a representative sample is one that represents at least 10% of the population of interest. Random sampling frequently minimizes the sampling error in the population. This in turn increases the precision of any estimation methods used (Cooper and Schindler, 2003).

Table 3.2: Sample Size

Category	Frequency	Percentage	Sample size
Top Management	35	20	7
Middle Level Management	169	20	34
Low Level Management	282	20	56
Total	486	20	97

Source: KCB HR, 2014.

3.5 Data Collection Method

Primary data is information gathered directly from respondents. The research used questionnaires. The questionnaire was used to collect mainly quantitative data. However some qualitative data was collected from the open ended questions. The research administered a questionnaire to each member of the target population. The questionnaire was designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity and accuracy of data to be collected. The researcher administered the questionnaire individually to selected employees of Kenya Commercial bank who were not included in the actual study. The researcher exercised care and control to ensure all questionnaires issued to the respondents are received. To achieve this, the research maintained a register of questionnaires.

3.6 Pilot Test

The researcher carried out a pilot study to pretest and validates the questionnaire. According to Cooper and Schindler (2003), the pilot group can range from 25 to 100 subjects depending on the method to be tested but it does not need to be statistically selected. This was in line with a qualitative research design methodology employed in this research.

To establish the validity of the research instruments the research sought opinions of experts in the field of study especially the lecturers in the School of business and entrepreneurship. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity and reliability. Reliability refers to the consistency of measurement and is frequently assessed using the test–retest reliability method (Walliman, 2001). Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures.

3.7 Data Analysis

After data collection, the researcher perused through thecompleted questionnaires and document analysis recording sheets. Quantitative data collected will be analyzed using SPSS and presented through percentages, means, standard deviations and frequencies. This involved tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives through use of SPSS. Content analysis was used to test data that is qualitative nature or aspect of the data collected from the open ended questions.

CHAPTER FOUR

RESEARCH FINDINGS AND INTERPRETATION

4.1 Introduction

This chapter presents the findings and results of the study in the order of the research objectives. It begins by analyzing the demographic characteristics of the sample, investigates how the sample understands the process of service recovery, reviews service recovery processes and reasons why KCB undertakes service recovery process. The chapter concludes with a regression of amount set up for customer retention and the profits realized. The results are based on a response rate of 96% (n=97).

4.2 Demographic Characteristics of the Sample

4.2.1 Response rate

Table 4. 1: Response rate

Category	**Frequency**	**Percentage**
Responded	93	96
Did not respond	4	4
Total	97	100

Table 4.1 shows that response rate was high at 96%. Only 4% of the administered questionnaires were returned unanswered or with errors.

4.2.2 Gender

Table 4.2 shows that majority of the respondents were male (54%) while the female respondents constituted 46% of the sample.

Table 4. 2: Gender distribution of respondents

Category	**Frequency**	**Percentage**
Male	50	54
Female	43	46
Total	93	100

4.2.3 Age of the Respondents

Table 4.3: Age distribution of respondents

Category	**Frequency**	**Percentage**
Between 26 and 35	44	47
Between 36 and 45	40	43
Between 46 and 50	5	6
Above 50	4	4
Total	93	100

Table 4.3 shows that the 36-45 age group of respondents consisted of 43% of the respondents, the others were as follows; 46-50 (6%), > 50 (4%). The 26-35 age groups formed the largest proportion of the study population, with more than 47% representation from the age categories in this group.

4.2.4 Years of Work at KCB

Table 4.4: Years of work at KCB

Category	Frequency	Percentage
Below 1 year	5	6
Between 1 and 2	15	16
Between 3 and 5	31	33
Over 5	42	45
Total	**93**	**100**

Table 4.4 shows that 45% of the employees had worked for over 5 years at KCB. This was followed by those who had worked for a period between 3 and 5 years (33%), and 1-2years (16%). The least group of workers were those who had worked for less than 1 year (6%).

4.2.5 Current Position in the Organization

Table 4.5: Current position of the respondents

Category	Frequency	Percentage
Management Level	12	13
Clerk Level	81	87
Total	93	100

Table 4.5 shows that management level constituted 13% of the respondents. The clerksformed the majority at87%.

4.3 Service Recovery

4.3.1 Respondents Perception on whether Service Recoveryis a Customer Retention Process used within the Banking Industry.

Table 4.6: Respondents perception on whether Service recoveryis a customer retention process used within the banking industry

Process	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree	Total	Mean
Service recovery	3(3.23)	4(4.30)	10(10.75)	51(54.84)	25(26.88)	93	3.97

Values in parentheses ( ) are row percentages, while values outside parentheses are frequencies.

Table 4.6 shows that 55% of the respondents agree that service recovery is a customer retention process used in the banking industry. 27% of the respondents strongly agree with the parameter while 4% disagree. 11% of the respondents are not sure whether the parameter is a customer retention process. Service recovery ensures that customers are retained and this increases product uptake leading to profit maximization. On the other hand, when service recovery does not occur, chances of customers migrating to the competitor are high lead to less profits.

4.3.2 Effective Customer Retention Process

Table 4.7: Effective customer retention process

Category	Frequency	Percentage
Yes	80	86
No	13	14
Total	97	100

The study sought to find whether KCB has an effective customer retention process. Table 4.7 shows that 86% of the respondents agree that KCB has an effective customer retention process while 14% disagree.

4.3.3 How Service Recovery ensure Customer Retention

Table 4.8:How service recovery ensure customer retention

Content	Frequency	Percentage
Retains dissatisfied customers	50	60.22
Provides opportunities for improvement	89	95.70
Identifies service failure points	45	48.39
It forms a normal management tool that improves service delivery	29	31.18
Influences customers future attitude and behavior	72	77.42
Retains dissatisfied customers	80	86.02

The study sought to find the reasons why KCB undertakes service recovery processes. Table 4.8shows the responses from the interview guide grouped into similar contents. 60% of the respondents mentioned that KCB does service recovery in order to retain dissatisfied customers while 48% mentioned in order identify service failure points. 96%

of the respondents cited that KCB does service recovery process in order to create opportunities for improvement. 31% of the respondents cited that KCB does service recovery as a normal management tool.

4.3.4 Service Recovery Processes used by KCB

Table 4.9: Service recovery processes used by KCB

Content	**Frequency**	**Percentage**
Solving the problem	67	72.04
Apologising	72	77.42
Compensating with something of value	32	34.41
Training employees	56	60.22
constant execution of complaints	90	96.77
acknowledging and owing the responsibility	65	69.89
provision of alternative channels to access money	54	58.06
conducting of customer satisfaction surveys	90	95.34
timely update to customers on system downtown	43	46.24
use of root cause analysis	21	22.58
reengineering of business processes	39	41.94
minimizing chances of reoccurrence of complaint	87	93.55

The study sought to find the service recovery processes used by KCB. Most of the interviewed staff(97%) mentioned constant execution of complaintsas the commonly used service recovery processes at KCB. Apologizing was cited as another service recovery process that is used by KCB (77%). The other processes identified are acknowledging and owing the responsibility (70%), conducting of customer satisfaction surveys (95%), having convenient banking (increasing accessibility of branches) (58%), minimizing chances of reoccurrence of complaint (93%), use of root cause analysis (22%), reengineering of business processes (42%), timely update to customers on system downtown (46%).

4.4 Employee Satisfaction

4.4.1 Respondents Perception on whether Employee Satisfaction is a Customer Retention Process used within the Banking Industry.

Table 4.10 Respondents perception on whether employee satisfaction is a customer retention process used within the banking industry.

Process	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree	Total	Mean
Employee satisfaction	1(1.08)	3(3.23)	10(10.75)	60(64.52)	19(20.43)	93	4.00

Values in parentheses ( ) are row percentages, while values outside parentheses are frequencies

Table 4.10 shows that 65% of the respondents agree that employee satisfaction is a customer retention process used in the banking industry. 20% of the respondents strongly agree with the parameter while 3% disagree. 11% of the respondents are not sure whether the parameter is a customer retention process. This means that when the employees are satisfied with theirjob they are more motivated and have the zeal to offer a plus one service to the customers. On the other hand, when employees are not satisfied, this lowers job performance and customer end up losing trust on the products and services leading to less absorption of the same.

4.4.2 How Employee Satisfaction Contribute to Customer Retention

Table 4.11: How employee satisfaction contribute to customer retention

Content	Frequency	Percentage
Increased creativity and innovation within the organization	64	68.8
Increased efficiency as a result of motivation	34	36.6
Increased employee retention and reduced intent to leave	76	81.7
Increased level of commitment by the employees	46	49.5
Overall increase in job performance	52	55.9
Increased productivity	29	31.2

Table 4.11 show the responses from the interview guide grouped into similar contents. The respondents cited that employee satisfaction leads to increased creativity and innovation within the organization (69%), increased efficiency as a result of motivation (37%), increased employee retention and reduced intent to leave (82%), increased level of commitment by the employees (50%), overall increase in job performance (56%) and increased productivity (31%).

4.4.3 Employee Satisfaction Processes used by KCB

Table 4.12: Employee Satisfaction Processes used by KCB

Content	**Frequency**	**Percentage**
Employee training and programs	65	69.9
Creation of a trustworthy and a positive work environment	61	65.6
Satisfactory employees' benefits package	54	58.1
Employee motivation	22	23.7
Career growth opportunities	78	83.9
Involvement in decision making	14	15.1

Table 4.12 show the responses from the interview guide grouped into similar contents. The respondents cited that the employee satisfaction processes used by KCB are employee training and programs (70%), creation of a trustworthy and a positive work environment (66%), satisfactory employees' benefits package (58%), employee motivation (24%), career growth opportunities (84%) and involvement in decision making (15%).

4.5 Complaint Management

4.5.1 Respondents Perception on whether Complaint Management is a Customer Retention Process used within the Banking Industry

Table 4.13: Respondents perception on whether complaint management is a customer retention process used within the banking industry

Process	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree	Total	Mean
Complaint management	0(0.00)	2(2.15)	5(5.38)	66(70.97)	20(21.51)	93	4.11

Values in parentheses ( ) are row percentages, while values outside parentheses are frequencies

Table 4.13 shows that 71% of the respondents agree that complaint management is a used customer retention process in the banking industry. 22% of the respondents strongly agree with the parameter while 2% disagree. 5% of the respondents are not sure whether the parameter is a customer retention process. When customer complaints are handled immediately, this restores customer trust and product uptake increases. On the other hand, when the complaints raised by customers are not handled well, the chances of customers migrating to the competitors are high hence leading to losses.

4.5.2 How Complaint Management Contribute to Customer Retention

Table 4.14: How complaint management contribute to customer retention

Content	Frequency	Percentage
Reduced dissatisfaction by the customers	78	83.9
Increased probability of repurchase of the same product	85	91.4
Deflected spread of negative word-of-mouth	57	61.3
Improved profitability	89	95.7
Increases customer loyalty	84	90.3

Table 4.14 show the responses from the interview guide grouped into similar contents. The respondents cited that complaint management leads to reduced dissatisfaction by the customers (84%), increased probability of repurchase of the same product (94%), deflected spread of negative word-of-mouth (61%), improved profitability (96%) and increases customer loyalty (90%).

4.5.3 Initiatives Applied by KCB in Resolving Customer Complaints

Table 4.15 Initiatives applied by KCB in resolving customer complaints

Content	Frequency	Percentage
Ensuring that customer complaints are handled and resolved immediately	67	72.0
engaging the customer in the resolution process	43	46.2
Having a central place to report complaints across the globe (KCB Contact Centre)	78	83.9
Effective communication between departments to ensure that systems are okay to avoid service failure	71	76.3
Having a standard TAT for different types of complaints	61	65.6
Putting the customer first core value	21	22.6

Table 4.15 show the responses from the interview guide grouped into similar contents. The respondents cited that the initiatives used are ensuring that customer complaints are handled and resolved immediately (72%), engaging the customer in the resolution process (46%), having a central place to report complaints across the globe (KCB Contact Centre) (84%), effective communication between departments to ensure that systems are okay to avoid service failure (76%), having a standard TAT for different types of complaints (66%) and putting the customer first core value (23%).

4.6 Loyalty/Reward Programs

4.6.1 Respondents perception on whether Loyalty/Reward Programsis a Customer Retention Process used within the Banking Industry

Table 4.16: Respondents perception on whether Loyalty/reward programsis a customer retention process used within the banking industry

Process	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree	Total	Mean
Loyalty/reward programs	0(0.00)	1(1.08)	6(6.45)	63(67.74)	23(24.73)	93	4.16

Values in parentheses ( ) are row percentages, while values outside parentheses are frequencies

Table 4.16 shows that 68% of the respondents agree that Loyalty/reward programs is a customer retention process used in the banking industry.25% of the respondents strongly agree with the parameter while 1% disagree. 6% of the respondents are not sure whether the parameter is a customer retention process.Loyalty programs build customer trust and love for the products and services and this increases profitability. On the other hand, when customers are not integrated on loyalty products, they feel unrecognized and uptake of products reduces.

4.6.2 How Loyalty Program Contribute to Customer Retention

Table 4.17: How loyalty program contribute to customer retention

Content	Frequency	Percentage
Stimulates purchase behavior	89	95.7
Increased perceived relative advantage of a product or service	67	72.0
Creation of large customer base	79	84.9
Builds product brand loyalty	80	86.0

Table 4.17 show the responses from the interview guide grouped into similar contents. The respondents cited that loyalty program contributes to customer retention by stimulating purchase behavior (96%), increasing perceived relative advantage of a product or service (72%), creating a large customer base (85%) and building product brand loyalty (86%).

4.7 Service Guarantee

4.7.1 Respondents Perception on whether Service Guaranteeis a Customer Retention Process used within the Banking Industry

Table 4.18: Respondents perception on whether Service guaranteeis a customer retention process used within the banking industry

Process	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree	Total	Mean
Service guarantee	0(0.00)	3(3.23)	10(10.75)	55(59.14)	25(26.88)	93	4.16

Table 4.18 shows that 59% of the respondents agree that Service guarantee is a customer retention processused in the banking industry. 27% of the respondents strongly agree with the parameter while 3% disagree. 11% of the respondents are not sure whether the parameter is a customer retention process. Customers tend to do business with organizations that guarantee their services and honor the promises. Service guarantee builds customer trust and increases the likelihood of them coming back hence increasing

sales. On the other hand, when service guarantee is not honored, customers shift to the competitor and this leads to reduced sales.

4.7.2 How Service Guarantee Contribute to Customer Retention

Table 4.19: Respondents perception on how service guarantee contribute to customer retention

Content	Frequency	Percentage
Promises the customers a certain service quality	34	36.6
Makes services more tangible	26	28.0
reduces perceived risk of purchasing a service	78	83.9
Builds customers trust and increases the likelihood of them coming back	61	65.6
Increases customer referral to friends and relatives	32	34.4

Table 4.19 show the responses from the interview guide grouped into similar contents. The respondents cited that service guarantee contributes to customer retention by promising the customers a certain service quality (37%), making services more tangible (28%), reducing perceived risk of purchasing a service (84%), building customers trust and increasing the likelihood of them coming back (66%) and increasing customer referral to friends and relatives (35%).

Table 4.20Respondents perception on business processes that affect customer retention

Process	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree	Total	Mean	Rank
Service recovery	3(3.23)	4(4.30)	10(10.75)	51(54.84)	25(26.88)	93	3.97	5
Employee satisfaction	1(1.08)	3(3.23)	10(10.75)	60(64.52)	19(20.43)	93	4.00	4
Complaint management	0(0.00)	2(2.15)	5(5.38)	66(70.97)	20(21.51)	93	4.11	3
Loyalty/reward programs	0(0.00)	1(1.08)	6(6.45)	63(67.74)	23(24.73	93	4.16	2
Service guarantee	0(0.00)	3(.23)	10(10.75)	55(59.14)	25(26.88)	93	4.16	1

Table 4.20 shows respondent perception on all the five processes. On ranking the processes on the basis of mean, the processes, in order of popularity, were rated asService guarantee, Loyalty/reward programs, Complaint management, Employee satisfaction and Service recovery.

4.8Direct Observation Data Analysis

Apart from the questionnaire, theresearcher collected qualitative date through direct observation. In this data collection method, the researcher does not actively query the respondent. The researcher observed that the bank has a contact centre. Within the contact centre, there is a customer experience department that handles customer complaints and supports KCB Diaspora customer. The contact centre has a Turnaround Time (TAT) of 72 hours for handling all customer complaints. The researcher also observed that complaint management was coordinated across all the branches.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION DISCUSSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings of the research, discusses the results, draws conclusions and makes recommendations for customer retention processes at KCB.

5.2 Summary of Findings

5.2.1 Service Recovery

55% of the respondents agree that service recovery is a customer retention process used in the banking industry. 27% of the respondents strongly agree with the parameter while 4% disagree. 11% of the respondents are not sure whether the parameter is a customer retention process. 60% of the respondents mentioned that KCB does service recovery in order to retain dissatisfied customers while 48% mentioned in order identify service failure points. 96% of the respondents cited that KCB does service recovery process in order to create opportunities for improvement. 31.18% of the respondents cited that KCB does service recovery as a normal management tool.

Most of the interviewed staff(97%) mentioned constant execution of complaintsas the commonly used service recovery processes at KCB. Apologizing was cited as another service recovery process that is used by KCB (77%). The other processes identified are acknowledging and owing the responsibility (70%), conducting of customer satisfaction surveys (95%), having convenient banking (increasing accessibility of branches) (59%), minimizing chances of reoccurrence of complaint (93%), use of root cause analysis (23%), reengineering of business processes (42%), timely update to customers on system downtown (46%).

5.2.2 Employee Satisfaction

64% of the respondents agree that employee satisfaction is a customer retention process used in the banking industry. 20% of the respondents strongly agree with the parameter while 3% disagree. 11% of the respondents are not sure whether the parameter is a customer retention process. The respondents cited that employee satisfaction leads to increased creativity and innovation within the organization (69%), increased efficiency as a result of motivation (37%), increased employee retention and reduced intent to leave (82%), increased level of commitment by the employees (50%), overall increase in job performance (56%) and increased productivity (32%).

The respondents cited that the employee satisfaction processes used by KCB are employee training and programs (69.9%), creation of a trustworthy and a positive work environment (65.6%), satisfactory employees' benefits package (58.1%), employee motivation (23.7%), career growth opportunities (83.9%) and involvement in decision making (15.1%).

5.2.3 Complaint Management

71% of the respondents agree that complaint management is a used customer retention process in the banking industry. 21% of the respondents strongly agree with the parameter while 2% disagree. 5% of the respondents are not sure whether the parameter is a customer retention process. The respondents cited that complaint management as a customer retention process leads to reduced dissatisfaction by the customers (84%) increased probability of repurchase of the same product (91%), deflected spread of negative word-of-mouth (61%), improved profitability (95%) and increases customer loyalty (90%).

The respondents cited that the complaint management initiatives used are ensuring that customer complaints are handled and resolved immediately (72%), engaging the customer in the resolution process (46%), having a central place to report complaints across the globe (KCB Contact Centre) (83%), effective communication between departments to ensure that systems are okay to avoid service failure (76%), having a standard TAT for different types of complaints (65%) and putting the customer first core value (21%).

5.2.4 Loyalty Program

68% of the respondents agree that Loyalty/reward programs is a customer retention process used in the banking industry. 25% of the respondents strongly agree with the parameter while 1% disagrees. 6% of the respondents are not sure whether the parameter is a customer retention process. The respondents cited that loyalty program contributes to customer retention by stimulating purchase behavior (96%), increasing perceived relative advantage of a product or service (72%), creating a large customer base (85%) and building product brand loyalty (86%).

5.2.5 Service Guarantee

59% of the respondents agree that Service guarantee is a customer retention processused in the banking industry. 27% of the respondents strongly agree with the parameter while 3% disagree. 11% of the respondents are not sure whether the parameter is a customer retention process. The respondents cited that service guarantee contributes to customer retention by promising the customers a certain service quality (37%), making services more tangible (28%), reducing perceived risk of purchasing a service (84%), building customers trust and increasing the likelihood of them coming back (66%) and increasing customer referral to friends and relatives (35%).

5.3 Discussion

5.3.1 Service Recovery

The study sought to identify the reasons why KCB does service recovery processes. The study found out that KCB does service recovery processes are to influence customers future attitude and behavior, to identify service failure points, opportunities for improvement, retain dissatisfied customers and as a normal management tool. This matches literature by Gronroos (2001) which states that service recovery is a strategy for managing mistakes, failures and problems in customer relationships. The findings also match findings by Hoffman and Kelley(2000) which cites that service recovery is key in bringing back the lost sheep and that reactivating customers who already know the organization and organization products is one of the easiest, quickest ways to increase revenues.

The study sought to find out service recovery processes used by KCB. The service recovery processes used by KCB that came out of the study are solving the problem, training employees, apologizing, timely update to customers on system downtown, conducting of customer satisfaction surveys and the provision of alternative channels to access money (internet banking, mobile banking, agency banking). This matches literature by Tschohl (2007) which cites that in case of a service failure, the first step is to apologize. The literature goes on to cite that it is important for a service provider to apologize and take responsibility for the error.

Other service recovery process that came out of the study are compensating with something of value, acknowledging and owing the responsibility, constant execution of complaints, having convenient banking (increasing accessibility of branches), minimizing chances of reoccurrence of complaint, use of root cause analysis and reengineering of business processes. This matches literature by Hoffman and Kelley(2000) which states that after resolving the problem, one may give the customer something of value as compensation and that It can cost the company from nothing to a few dollars but, as long as it has value in the Customer’s eyes, it will be effective.

5.3.2 Employee Satisfaction

The study sought to find out how employee satisfaction serves as a customer retention process. the study found out that that employee satisfaction leads to increased creativity and innovation within the organization, increased efficiency as a result of motivation, increased employee retention and reduced intent to leave, increased level of commitment by the employees, overall increase in job performance and increased productivity. This matches literature by Ruddy (2001) which cites that when employees feel motivated they are more creative, more efficient, and most importantly, satisfied with their work and the organization that they work for. In addition, Pounds (2006) cites that increased employee satisfaction is a potential for employees to exhibit more creativity and innovation. Lastly, other studies such as Billikopf (2006) and Gronroos (2001) have found that increased levels of creativity and innovation in employees have a positive effect on the corporate profitability of an organization.

The study sought to find out the various employee satisfaction processes used by KCB. The study found out the processes used by KCB are employee training and programs, creation of a trustworthy and a positive work environment, satisfactory employees' benefits package, employee motivation, career growth opportunities and involvement in decision making. This matches literature by Looy, Gemmel and Dierdonck(2003) which states when employees are treated with respect by the management of an organization, the organization reaps the benefits of increased retention, increased productivity, and an overall increase in job performance. This is echoed in a study by Gronroos (2001) which found out that employee training and programs is an attribute to employee satisfaction and cited that a common mistake made by many organizations is the failure to adequately invest in the continued training of their employees after they are hired. Another study by Tschohl (2007) cited out that one of the biggest factors in employee satisfaction or loyalty levels is the amount of training and development companies provide.

5.3.3 Complaint Management

The study sought to find out how complaint management drives customer retention. The study fought out that complaint management as a customer retention process leads to reduced dissatisfaction by the customers, increased probability of repurchase of the same product, deflected spread of negative word-of-mouth, improved profitability and increases customer loyalty. This matches literature fromGilly (1987) which cites that if customers are satisfied with the handling of their complaints, dissatisfaction can be reduced and the probability of repurchase can be increased. In addition, the findings matches literature by Tax, Brown, and Chandrashekaran(1998) which cited that effective complaint handling can have a dramatic impact on customer retention rate, deflect the spread of negative word-of-mouth, and improve profitability.

The study sought to find out the complaint management processes used by KCB. The study found out that the complaint management initiatives used are ensuring that customer complaints are handled and resolved immediately, engaging the customer in the resolution process, having a central place to report complaints across the globe (KCB Contact Centre), effective communication between departments to ensure that systems are okay to avoid service failure, having a standard TAT for different types of complaints and putting the customer first core value.

5.3.4 Loyalty Program

The study sought to find out how loyalty programs contribute to customer retention. The study found out that loyalty program contributes to customer retention by stimulating purchase behavior, increasing perceived relative advantage of a product or service, creating a large customer base and building product brand loyalty. This matches literature by Shugan(2005) which cites that there is ample evidence that a loyalty program can stimulate purchase behavior which leads to customer retention. The findings also match literature by Bolton, Kannan, and Bramlett (2000) which discovered that loyalty programs can positively reinforce purchase behavior via a virtuous cycle: more experience with the product stimulates more usage, and more usage leads to more experience.

5.3.5 Service Guarantee

The study sought to find out how service guarantee promotes customer retention. The study found out that service guarantee contributes to customer retention by promising the customers a certain service quality, making services more tangible, reducing perceived risk of purchasing a service, building customers trust and increasing the likelihood of them coming back and increasing customer referral to friends and relatives. This matches literature by Looy, Gemmel and Dierdonck (2003) which cites that service guarantee promises the customers a certain service quality and backs up such promise with a payout, making services more tangible, reducing the perceived risk of purchasing a service.

5.4 Conclusion

KCB has been in the banking industry in Kenya for almost a century now. Today, the bank faces competition from other commercial banks as well as micro finance institutions. The bank has implemented initiatives to ensure that its services cut across the demands in the market in order to attract new customers and retain existing customer. All service recovery processes used by the banking sector and other industries are present in KCB and from the study the commonly used processes are solving the problem and training employees. Solving the problem is seen as the best process since it ensures that the complaint is resolved and builds the customer confidence. Training the staff on customer service skills and other life skills ensure that the staff is capable of handling customer enquiries at every customer touch point. Majority of the staff are aware of service recovery which is an evident that the bank is keen on service recovery.

Though the staffs do not agree that the KCB service recovery is effective, the analysis show that the staffs believe that most of the customers are satisfied with KCB services and this means that there is still room for improvement. This alloyed with the routine baseline surveys done by the bank on service delivery and customer satisfaction will go a long way in achieving effective service recovery.

From the literature review, the reasons why organisations do service recovery are evident from the KCB study. For KCB, the main reasons why the bank does service recover to influence customers' future attitude and behavior and to identify service failure points. When customers create a post attitude towards the bank products and services, they would be able to get more of the products and services as well as introducing their friends to the bank. This in turn contributes to a positive financial performance of the bank.Hence, this study concludes that customer retention has a positive impact on institutions profitability.

5.5 Recommendation

The study has realised the impact of customer retention on profitability. KCB has put in place a platform for ensuring that customers get a plus one service. In 2009, the bank introduced the KCB Contact centre to handle customer queries and complaints. In 2013, the bank set up a customer experience division in its core management structure. For effective future service recovery processes, this study calls for KCB to do a pre-operative assessment, planning and preparation of all initiatives as well as centralize system on customer complaints. In addition, the bank will have to ensure that customers fully understand the bank processes and have timely updates and responses to customers to build customer trust and improve service guarantee. Lastly the study recommends that the management should always pay attention to employee feedbacks on complaint resolutions and the way forward and restructure the flexibility of bank processes to reduce bureaucracy.

5.6 Further Research

Having established the influence of retention processes on profitability, this study calls for further research on other customer relationship management strategies that impact not only profitability but also business sustainability.

REFERENCES

Andreassen, T.W. (1999), “What drives customer loyalty with complaint resolution?” *Journal of Service Research,* Vol. 2, pp. 324-32.

Berry, L.L. and Parasuraman, A. (1991), *Marketing Services: Competing through Quality*,the Free Press, New York, NY.

Bitner, M.J., Blooms, B.H. and Tetreault, M.S. (1990), “The service encounter: diagnosing favorable and unfavorable incidents”, *Journal of Marketing*, Vol. 54,January, pp. 71-84.

Blodgett, J.G., Hill, D.J. and Tax, S.S. (1997), “The effects of distributive justice, procedural and interactional justice on post complaint behavior”, *Journal of Retailing*, Vol. 73 No. 2, pp. 185-210.

Blodgett, J.G., Wakefield, K.L. and Barnes, J.H. (1995), “The effects of Customer service on consumer complaining behavior”, *Journal of Services Marketing*, Vol. 9 No. 4, pp. 31-42.

Chow, S., Holden, R.(1997). “Toward an understanding of loyalty: The moderating role of trust”, *Journal of Managerial Issues, 9*(3), 275-298

Clemmer, E.C. (2000), “*The role of fairness in Customer satisfaction with services*”, doctoral dissertation, Psychology Department, University of Maryland, College Park, MD.

Creswell, J. W. (1997), *“Qualitative Inquiry and Research Design: Choosing Among Five Traditions”,* Thousand Oaks, CA: Sage Publications

Cronin, J. Jr, Taylor, S.A (1992), “Measuring service quality: a re-examination and extension,” *Journal of Marketing*, 56, pp.55-68.

Dawkins, P. and Reichheld, F.F. (1990), “Customer retention as a competitive weapon”, *Directors and Bounds*, Vol. 14, Summer, pp. 41-7.

DeWitt, T., Brady, M.K. (2003).Rethinking Service Recovery Strategies.The Effect of Rapport on Consumer Responses to Service Failure.*Journal of Service Research*, Vol.6, No.2, 193–207

Dick, A., Basu, K. (1994), "Customer Loyalty: Toward an Integrated conceptual Framework", *Journal of theAcademy of Marketing Science*, 22(2), pp. 99-113

Fornell, C. (1992), "A national customer satisfaction barometer: the Swedish experience", *Journal of Marketing*, Vol. 56, January, pp. 6-21.

Gilliland, S.W. (1993), "The perceived fairness of selection systems: an organizational justice perspective", *Academy of Review*, Vol. 18 No. 4, pp. 697-734.

Goodwin, C. and Ross, I. (1992), "Consumer responses to service failures: influence of procedural and interactional fairness perception", *Journal of Business Research*, Vol. 25 No. 2, pp. 149-63.

Grönroos, C. (1988). Service Quality: The six Criteria of Good Perceived Service Quality. *Review of Business*, 9 (Winter), 10–13.

Hallowell, R. (1996), "The relationships of customer satisfaction, customer loyalty and profitability: an empirical study", *International Journal of ServiceIndustry Management*, 7(4), pp. 27-42

Hart, W., Heskett, L., Sasser, E. (1990), "The profitable art of service recovery", *Harvard Business Review*, 68, pp 148-56

Heskett, J.L., Sasser, W.E. Jr and Schlesinger, L.A. (1997), *The Service Profit Chain: How Leading Companies Link Profit to Loyalty, Satisfaction and Value*, Free Press, New York, NY.

Hockut,M.A., Bowers,M.R., Donavan,D.T. (2006). The art of service recovery: fact or fiction? *Journal of Service Marketing*, Vol.20, No.3, 199–207

Hoffman, D.K., Kelley, S.W. and Bateson, J.E.G. (1997), *Essentials of Services Marketing*, the Dryden Press, New York, NY.

Johnston, R. (1995), "Service failure and recovery: impact, attributes and processes", *Advances in Services Marketing and Management: Research and Practice,* Vol. 4, pp. 211-28.

Kelley, S.W. and Davis, M.A. (1994), "Antecedents to customer expectation for service recovery", *Journal of the Academy of Marketing Science*, Vol. 22 No. 1, pp. 52- 61.

McCollough, M.A., Berry, L.L., Yadav, M.S. (2000). An Empirical Investigation of Customer Satisfaction after Service Failure and Recovery, *Journal of Service research*, Vol.3, No.2, Nov., 121–137

Oliver, L. (1997), *Satisfaction: A behavioral perspective on the consumer"*, Singapore: McGraw Hill

Ouma, E.W. (2011). *Factors affecting mobile phone users in Kisumu City*.Unpublished MBA Project, School of Business, University of Nairobi.

Patterson, P.G., Cowley, Prasongsukarn, K. (2006). Services Failure Recovery: The moderating impact of individual level cultural value orientation on perceptions of justice.*International Journal of Retailing*, Vol. 23, 263–277

Ruyter, K., Wetzels, M. (2000), Customer equity considerations in service recovery: A cross-industry perspective, *InternationalJournal of Service Industry Management*, 11(1), pp 91-108

Selnes, F (1993). An examination of the effect of product performance on brand reputation, satisfaction and loyalty", *European Journal of Marketing*, 27(9), pp.19-35.

Smith, A.K., Bolton, R.N., Wagner, J. (1999). A Model of Customer Satisfaction with Service Encounters Involving Failure and Recovery. *Journal of Marketing research,*Vol. XXXVI, August, 356–372

Swanson,S.R., Kelley,S.W. (2001). Attributions and Outcomes of the Service Recovery Process.*Journal of Marketing Theory and Practice*, Fall, 50-65

Tax, S.S., Brown, S.W., Chandrashekaran, M. (1998). Customer Evaluations of Service Complaint Experiences: Implications for Relationship Marketing. *Journal of Marketing*, 62 (April) 60–76

Wambugu, V.W. (2011). *A survey of competitive strategies adapted by Boutiques in Nairobi Central District*.Unpublished MBA Project, School of Business, University of Nairobi.

Wangari, G.B. (2007). *The influence of Competitive Strategies on the Performance of Hair Salons in Nairobi*.Unpublished MBA Project, School of Business, University of Nairobi.

Wanyonyi, C.W. (2011). *Competitive Strategies adapted by Kenyan Commercial Banks to attract and retail customers.*Unpublished MBA Project, School of Business, University of Nairobi.

Yagil, D. (2002). The relationship of customer satisfaction and service workers' perceived control. *International Journal of Service Industry Management*, 13 (4) 382–398

Appendix one: Letter of transmittal of data collection instruments

JAMES MURIERA
P. O. BOX 235-90128
MTITO ANDEI
Tel: 0723420452

Dear Respondent,

RE: RESEARCH ON THE INFLUENCE OF CUSTOMER RETENTION PROCESSES ON FINANCIAL PERFORMANCE OF KCB

I am a final year Master of Business Administration at SEKU, specializing in Strategic Management. As part of my course, I am required to carry out a research on the above topic.

I will be grateful if you could spare sometime from your busy schedule and fill in the questionnaire. All the information provided will be purely used for academic purposes and your identity will be treated with utmost confidentiality.

Thank you for your cooperation.

Kindly do not write your name anywhere on the questionnaire.

Yours faithfully,

JAMES MURIERA

Appendix two: Questionnaire

CUSTOMER RETENTION PROCESS AND ITS INFLUENCE ON PROFITABILITY TARGET IN BANKING INDUSTRY

A CASE STUDY OF KENYA COMMERCIAL BANK (KCB)

This research is meant for academic purpose. You're kindly requested to provide answers to these questions honestly and precisely as possible. Responses will be treated with utmost confidentiality. Please tick [√] appropriate or fill in the required information on the spaces provided.

SECTION A: DEMOGRAPHIC INFORMATION

1. Gender of the respondent

    [ ] Male

    [ ] Female

2. Age in years of respondent

    [ ] 26-35

    [ ] 36-45

    [ ] 46-50

    [ ] Above 50

3. Years worked at KCB

    [ ] Below 1 year

    [ ] Between 1-2 years

    [ ] Between 3-5 years

    [ ] Over 5years

3. What is your position in the organization?

[ ] Management level

[ ] Clerk Level

SECTION B: SERVICE RECOVERY

1. To what extent do you agree that service recovery is acustomer retention process used within the banking industry? Please rank between 1-5 (5 being the highest priority).

Process	**Strongly Disagree**	**Disagree**	**Neither agree nor disagree**	**Agree**	**Strongly Agree**
Service recovery	①	②	③	④	⑤

1b. Does KCB have an effective customer retention process?

[ ] Yes

[ ] No

1c. According to you, how does service recovery ensure customer retention?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

………………………………………………………………………………………………..

1d. What are the service recovery processes used by KCB?

....

....

....

....

SECTION C: EMPLOYEE SATISFACTION

2. To what extent do you agree that employee satisfaction is acustomer retention process used within the banking industry? Please rank between 1-5 (5 being the highest priority).

Process	**Strongly Disagree**	**Disagree**	**Neither agree nor disagree**	**Agree**	**Strongly Agree**
Employee satisfaction	①	②	③	④	⑤

2b. According to you, how does employee satisfaction contribute to customer retention?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

2c. What are the employee satisfaction processes used by KCB?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

SECTION D: COMPLAINT MANAGEMENT

3. To what extent do you agree that complaint management is acustomer retention process used within the banking industry? Please rank between 1-5 (5 being the highest priority).

Process	**Strongly Disagree**	**Disagree**	**Neither agree nor disagree**	**Agree**	**Strongly Agree**
Complaint management	①	②	③	④	⑤

3b. According to you, how does complaint management contribute to customer retention?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

3c. Which initiatives are applied by KCB in resolving customer complaints?

....

....

....

SECTION E: LOYALTY/REWARD PROGRAMS

4. To what extent do you agree that loyalty/reward programsisacustomer retention process used within the banking industry? Please rank between 1-5 (5 being the highest priority).

Process	**Strongly Disagree**	**Disagree**	**Neither agree nor disagree**	**Agree**	**Strongly Agree**
Loyalty/reward programs	①	②	③	④	⑤

4b. According to you, how does loyalty program contribute to customer retention?

………………………………………………………………………………………………

………………………………………………………………………………………………

SECTION F: SERVICE GUARANTEE

5. To what extent do you agree that service guarantee is acustomer retention process used within the banking industry? Please rank between 1-5 (5 being the highest priority).

Process	**Strongly Disagree**	**Disagree**	**Neither agree nor disagree**	**Agree**	**Strongly Agree**
Service guarantee	①	②	③	④	⑤

5b. According to you, how does service guarantee contribute to customer retention?

………………………………………………………………………………………………

………………………………………………………………………………………………

SECTION G: PROFIT TARGET

Year	**Target profit**	**Realised profit**
2013		
2012		
2011		
2010		
2009		

Thank you for your participation in this study.