# RELATIONSHIP BETWEEN CUSTOMER RELATIONSHIP MANAGEMENT PROCESS AND MARKETING EFFECTIVENESS OF COMMERCIAL BANKS IN KENYA

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**AGRICULTURE AND TECHNOLOGY**

**2016**

# Relationship between Customer Relationship Management Process and Marketing Effectiveness of Commercial Banks in Kenya

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**Thesis Submitted in Partial Fulfilment for the Degree of Doctor of Philosophy in Business Administration-Marketing Option, in the Jomo Kenyatta University of Agriculture and Technology**

**2016**

## DECLARATION

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

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This Thesis has been submitted for examination with our approval as the University supervisors.

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## DEDICATION

To my husband, Daniel Mulli and daughters, Joan and Shirlyn.

To my late father, E. Kabue Ndei and my mother, Magdaline W. Kabue, your love and support have been my inspiration.

## ACKNOWLEDGMENTS

My sincere gratitude go to my University supervisors Dr. Jane Gathenya and Prof. John Kihoro for their guidance, expertise and constructive criticism that have seen this work come to be. Appreciations are extended to all the other lecturers who took us through the coursework: Prof. Namusonge, Dr. Gichira, Prof. Mukulu, Dr. Karanja and Dr. Namusonge.

I am greatly indebted to my late father Mr. E. Kabue Ndei and my mother Mrs Magdaline Kabue who have been my inspiration all through my academic journey. Thank you for the sacrifices you made for the sake of my education, without which I would not have come this far. My appreciations also go to all the other members of my family; my brothers Simon, Reuben and Patrick and sisters, Purity, Rhodah and Lucy. To my in laws, the Kithae family, your words of encouragement and prayers are highly appreciated. To my sister in law, Jedidah and my cousin Ida, thank you for editing my work and for your input. Thanks to my PhD-BA classmates, I like the moral support that we accorded each other.

To GOD be the glory.

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## ABBREVIATIONS

| | |
|---|---|
| **CCV** | Creating Customer Value |
| **C D** | Customer Development |
| **C H** | Complaint Handling |
| **CIOs** | Chief Information Officers |
| **CRM** | Customer Relationship Management |
| **CV** | Customer Value |
| **FKC** | Focusing on Key Customers |
| **ICT** | Information Communication Technology |
| **I T** | Information Technology |
| **KM** | Knowledge Management |
| **ME** | Marketing Effectiveness |
| **RI** | Relation Initiation |
| **RoI** | Return on Investment. |
| **RM** | Relationship Maintenance |
| **RT** | Relationship Termination |
| **CR** | Customer Retention |
| **SPSS** | Statistical Package for Social Sciences |

## DEFINITION OF TERMS

**Commitment -**The extent to which an exchange partner desires to continue a valued relationship. Commitment provides a solid base from which additional characteristics important to developing relationships can be built upon. (Morgan & Hunt, 1994; Buttel, 2010).

**Customer Development -** The process of growing the value of retained customers by cross-selling or up-selling products and services (Buttel, 2010; Verhoef & Donkers, 2005).

**Customer Expectations** – The consumer perception of the most likely performance of a product (Mithas *et al*., 2005).

**Customer Loyalty –** The continued and regular patronage of a customer to a business in the face of alternative offers and competitive attempts to disrupt the relationship. It is expressed in continued buying and frequency of purchase (Buttel, 2010).

**Customer Relationship Management (CRM)** – An integrated effort of identifying, maintaining and building up a network with individual customers and continuously strengthening the network for the mutual benefit of both sides through interactive, individualized and value added contacts over a long period of time. It is a key organizational process that focuses on establishing, maintaining and enhancing long–term associations with customers (Srivastava, Shervan & Furley, 1999).

**Customer Satisfaction –**A feeling of pleasure that results from the extent to which a product's perceived performance matches a buyer's expectations. The degree of correspondence between the expectations that a potential customer has for a product or service, and the perceived service that the product actually provides. Effective marketing helps to improve customer satisfaction (Kotler *et al*., 2009; Raab *et al*., 2008; Mithas *et al*., 2005)

**Customer Retention** – The maintenance of a continuous trading relationship with customers over a long period of time (Buttel, 2010).Customers who have the greatest strategic value to the company, are the prime candidates for retention.

**Customer Value –** The difference between what a customer gets from a product, and what he or she has to give in order to get it. The trade-off between customers' perceived quality and customers' perceived price (Desarbo *et al.,* 2001; Kotler *et al*., 2009).

**CRM Process -** Systematic process of managing customer relationship initiation, maintenance and termination across all customer contact points to maximize the value of the relationship portfolio (Reinartz *et al.,* 2004).

**Cross Selling** - Selling of additional products and services to an existing customer (Buttel, 2010).

**Knowledge Management** – The organizational process that is concerned with the creation, storage, retrieval and application of customer knowledge. Also implies the ability of the firm to develop, store, disseminate and apply knowledge. (Murillo & Anabi 2002; Arnet & Badrinarayanan, 2005).

**Marketing-**The process of identifying, anticipating and satisfying customer needs at a profit (Kotler *et al.,* 2009). Effective marketing has become an increasingly vital ingredient for business success in building brands, increasing customer satisfaction and in customer retention. A key goal of marketing today is to develop deep enduring relationships with customers.

**Marketing Effectiveness-** The measure of how adequate a given marketer's go - to-market strategy is towards producing the intended or expected results which in this study will be indicated by customer Satisfaction, customer retention and the value of customers (Kotler *et al.,* 2009).

**Performance** – The actual output of results of an organization as measured against its intended output.

**Relationship Initiation-**The activities that take place before or in the early stages of the relationship with potential customers (Rababah *et al.,* 2011).

**Relationship Maintenance –** Activities aimed at developing and retaining customer relationships (Reinartz *et al.*, 2004).

**Relationship Termination** – Activities used to find and settle on ending unprofitable or bad relationships with the customers. (Rababah *et al.,* 2011).

**Total Customer Cost-**The perceived bundle of costs (monetary, energy and psychological) customers expect to incur in evaluating, obtaining, using and disposing of a given market offering.

**Trust –** The confidence that one party has in an exchange partner's reliability and integrity. It is the glue that holds a relationship together across time and experience (Morgan & Hunt, 1994).

**Up-Selling** - Selling of higher priced or higher margin products and services to existing customers to increase their life time value (Buttel, 2010).

## ABSTRACT

Commercial banks today are realizing that proper management of customers to build long-term relationships reduces the cost of acquiring new ones and consequently, improves marketing effectiveness and firm's performance in general. Customer Relationship Management (CRM) is meant to help companies build these relationships. However, studies have shown that many customer relationship management programs do not yield the expected results. The purpose of this study was therefore to establish and explain the magnitude and the direction of the relationship between the CRM process in terms of Relationship Initiation, Relationship Maintenance and Relationship Termination and Marketing Effectives. Marketing effectiveness was measured in terms of customer satisfaction, customer retention and the value of the customers. Explanatory research design was employed for this study as the focus of the study was to establish and explain the relationship between CRM and marketing effectiveness at each of the three phases of the CRM process. The target population was the customers of the 43 commercial banks in Kenya for branches based in Nairobi City County. A sample of 385 customers was selected. Sampling was done using multi-stage sampling method where the banks were first categorised into large, medium and small as grouped by the Central Bank of Kenya. Proportional stratified sampling was used at stage two to consider the number of customers to be sampled from each stratum of the banks while at stage three, stratified random sampling was used to select the banks and customer to participate in the study. Purposive sampling was used to pick on either the marketing manager or the customer care manager for each of the selected banks for the interviews. Primary data was collected by use of questionnaires for customers, while an interview schedule was employed for the managers. The data was subjected to descriptive, correlation and regression analysis to establish the relationship between CRM process and Marketing effectiveness. The null hypotheses were rejected based on the significance of the parameters in the regression model (t-test).The study found a positive statistically significant relationship between relationship initiation, relationship maintenance and relationship termination (CRM process) with marketing effectiveness. Relationship maintenance recorded the strongest relationship with marketing effectiveness while relationship termination had the least. The findings also showed that commitment moderated the relationship between the CRM process and marketing effectiveness. The study recommends that commercial banks should put in place a set of deliberate and proactive processes, policies and structures for initiating customer relationships, maintaining relationships with valuable customers and dissolving unprofitable customer relationships. Banks should continually improve existing processes as customers' needs change and also in line with changes in technology. The study also recommends that banks should cultivate both customer and managerial commitment in order to enhance CRM outcomes, and that they should adopt an integrated approach to CRM. The study suggests further research on viability of relationship termination, to confirm if it adds more value to marketing effectiveness to discontinue non profitable customers, or to try and develop them by meeting their needs more satisfactorily.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background to the Study

Globalization, world deepening economic woes, faded product differences and increasing customer sophistication have led to shrinking markets and increased competition. As a result, customer satisfaction, customer loyalty and customer retention are becoming more critical for firms. One way for organizations to retain their client base and ensure repeat purchases is to develop a data-base customer-focused management strategy that aims to increase customer satisfaction by cultivating long-term relationships (Prasongsukarn (2009); Kubi & Doku (2010). With emergence of new technologies marketers are now able to access a wider market, understand each customer better, choose whom to do business with and better manage customers' behavior and attitude. As a result, there is a growing demand for Customer focused approach to marketing. (Thuo, Kibera, K'Obonyo & Wainaina, 2011; Yim Anderson & Swaminathan, 2004; Kubi & Doku, 2010)

A key component of many customer focused initiatives today is the implementation of Customer Relationship Management (CRM). Businesses such as supermarkets, banks and mobile telephony are realizing the importance of CRM, and it's potential in helping them achieve a competitive edge through building customer relationships. These organizations are already changing their business processes and building technological solutions that enable them acquire new customers, retain the existing ones and maximise their life time value (Peppered, 2000).

CRM though a recent concept, has had its tenets such as; customer orientation, data base marketing and relationship marketing in existence for a long time. Relationship Marketing scholars have for long argued that pursuing long term relationships with customers instead of transaction oriented approach is more profitable for firms, (Morgan & Hunt, 1994; Peppered, 2000). According to Sheth, Parvatiyar and Shainesh (2009), developing close relationships with customers is more important in the current era of intense competition and demanding customers than have ever been before. As a result, the concept of marketing has changed from customer acquisition to customer retention. Consequently, the need to better understand customer behaviour and focus on those customers who can deliver long term profit has increased (Lambert, 2010; Soliman (2011). The premise of CRM is that existing customers are more profitable than new customers, it is less expensive to sell an incremental product to an existing customer and that customers' value increases with longevity of relationship as this allows for cross selling thus leading to low customer expenditure over time (Buttel, 2010).

CRM has been viewed differently by different people and this has significantly contributed to difficulties in CRM implementation, CRM performance measurement and the below expectation performance of CRM efforts. Raab *et al.* (2008) define CRM as a management philosophy whose goal is to manage durable and profitable customer relationships experience. Kotler and Armstrong (2009) view CRM as a set of business processes that focus on managing the customers. To Payne and Flow (2005), CRM is a strategy that is concerned with creating improved shareholder value. Zablah, Johnstone and Bellenger (2004) view CRM as a capability or a team of resources that enables a firm to modify its behaviour to meet customer requirements while Chen and Popovich (2003) define CRM as a cross-functional customer driven and technology integrate business process management strategy that maximizes on relationships. There is lack of consensus on how CRM should be defined.

In an attempt to develop a common understanding of CRM, Zablah, *et al.* *(*2004) suggested that the phenomenon is best conceptualized as an on-going process, and that focus on the process management is likely to enhance the success of CRM. The researchers further suggested that the process should be considered strategic in nature and that the first step towards achieving CRM success is specifying a relationship management strategy. Having specified the strategy, the firm can provide a detailed mapping and description of the relevant processes and sub-processes as well as allocate responsibilities among individual groups.

Consistent with Zablah *et al.* (2004), Reinartz, Kraft and Hoyer, (2004) conceptualized that the CRM process evolves with distinctive phases and that the processes are longitudinal phenomenon. The goal of CRM is therefore, to manage the various stages of the relationship systematically and proactively as the relationship moves from the beginning (initiation) to the end (termination). The continuous balance of CRM activities at each stage should be guided by the attempt to maximize the value of the relationship and thus should be associated with better overall company performance.

For the purposes of this study, CRM was considered to be the overall process of establishing, building and maintaining profitable customer relationships by delivering superior customer value and satisfaction (Kotler, Keller, Koshy, and Jha, (2009; Yim, *et al.,* 2005). The main focus of CRM is the satisfaction and retention of customers through the provision of products and services that directly suit their needs. CRM therefore involves tracking individual customer behaviour over time and using this knowledge to configure solutions precisely tailored to the customers. CRM emphasizes on cooperative and collaborative relationships between the firm and its customers and other marketing actors with the aims of directing all the organizational activities towards creating and maintaining a customer (Palvatya & Sheth, 2009).

The process perspective of CRM acknowledges that buyer-seller relationships develop over time characterised by a life cycle that evolves to maturity if well managed (Reinartz *et al.,* 2004). Consistently Sheth, *et al.*(2009) argue that customer relationships are likely to undergo evolution as they mature and that some evolution paths may be pre-planned while others would naturally evolve. Accordingly, the two parties involved in the relationship often have to make decisions such as continuation, enhancement, modification and termination. When performance of the relationship is satisfactory, partners may want to continue with the relationship and if the relationship fails to meet expectations partners may consider modifying or terminating the relationship. Zablah *et al.* (2004) argue that the essence of a process is its input and its output and that CRM as a process is about prioritizing customer relationships and making commensurate investments (inputs) in terms of human physical and organizational resources so as to build a portfolio of relationships which result in organizational profitability (output).

CRM enables firms to offer customers more personalized products and services, cultivate more customer relationships, put in place customer focused structures, culture, policies and a reward system (Kotheri & Armstrong, 2002). CRM also facilitates deeper understanding of customer needs, expectations and motivations (Payne, 2003; Peppered, 2000). Another important facet of CRM is 'customer selectivity'. CRM acknowledges that not all customers are equally profitable to an individual company. The company therefore must be selective and must tailor its programs and marketing efforts by segmenting and selecting appropriate customers for individual marketing programmes (Sheth *et al*., 2009).

CRM initiatives are heavily influenced by the interplay between people, processes, and technology (Campbell, 2003; Chen & Popovich, 2003). Thus, in order to successfully implement a CRM program, firms face the challenge of re-engineering organizational work processes in order to ensure that they help foster mutually beneficial customer-provider relationships, deploying CRM technologies that support these new processes and achieving user buy-in to both the newly deployed CRM technology and the redefined business processes (Zablah *et al.*, 2004; Fahey *et al*., 2001)

Although the actual results of CRM benefits remain controversial due to limited empirical evidence of its profitability with respect to benefit / cost trade-off, companies continue to invest heavily in CRM (Yim *et al*., 2005). Studies by Gatner Group (2010) revealed that the global CRM market recorded double digit growth rate between the year 2004 and 2009 with a growth rate of 12.5% in 2008 rising to $9.15 Billion from $8.13Billion in 2007. By the year 2010, the Global CRM annual spending rose to $11 Billion. Technological investments which enhance productivity, improve product visibility and give insight to customer behaviour are expected to continue growing despite the economic downturn (Planmill, 2010).

Despite the perception that CRM market is mainly a confine of the western economies, emerging markets share is gradually growing with a collective contribution of around 16% to the global market. In Thailand a majority of the medium and large companies have undertaken to implement CRM; some successfully, some with mixed results and some without any significant impact (Prasongsukarn, 2009 ).Taiwan's financial industry, which now accounts for 12% of total GDP, has changed the paradigm from business-to-customer to that of CRM. Inevitably, many banks in Taiwan have begun to rethink on how to build valuable relationships with their customers Yao and Khong, (2011). In the past companies in Pakistan did not focus a lot on their customers but now the trend is changing due to the dramatic changes in the global business environment and the shift of power from businesses to customers. Most companies in Pakistan are now using pull strategy instead of push strategy where they make products according to the demands of the customer and do one to one marketing as opposed to the initial approach where they made products in bulk and sent them to the retail outlets. For this reason, Pakistan companies are also prevailing in CRM (Hassan, Nawaz, Lashari & Zafar, 2015).

In Egypt a study by Sadek, Youssef, Ghonein and Tantawy (2012) on the effect of CRM on non-financial components of commercial banks, revealed that the selected banks for the study applied CRM but the level of application differed from bank to bank. 100% of the selected banks agreed that CRM implementation helped them increase their marketing performance in terms of attracting new customers, customer satisfaction, market share and sales growth. This worldwide adoption of CRM is also evident among commercial banks in Kenya.

On the other hand, Band (2010) found that adopting CRM best practices was a big challenge for many organizations with a significant percentage of the executives surveyed evaluating their capabilities to be poor or below average with an average score of between 17% to 37%. In the developing world some countries seem not to have embraced CRM fully. In Ghana a study by Assabil and Hamdallah (2011) to classify hotels as high middle or low CRM conscious reported that a majority of the high star-rating hotels had high levels of CRM practices, consciousness and orientation while the low star-rating hotels recorded a low orientation towards CRM as a whole. Their study had a sample size of 142 customer relations officers selected from both high star-rating and low star rating hotels. Band (2010) argues that, disappointment with CRM is usually the result of poorly conceived strategies that lack a laser focus on improving a specific set of business capabilities to increase revenue or reduce costs.

In Kenya, the banking sector which is governed by the Companies Act, the Banking Act, Cap 488 and the Central Bank of Kenya Act, cap 491 was liberalized in 1995 and the exchange controls were lifted thereafter, (Market Intelligence Survey, 2006). This brought with it high numbers of new entrants, massive expansion and intensified competition not only within the banking sector but also from other industries such as mobile telephony, securities and insurance companies. The situation became even worse following reduced government borrowing in 2007 and the commercial banks had to find strategies of expanding their customer base, increase customer value and retain the existing customers. One of these strategies was embracing CRM. Commercial Banks in Kenya use CRM to monitor customer accounts, better handle customer data and complaints, create rapport with customers, increase the effectiveness of customer service and understand customer needs and expectations and to identify and relate with their key customers (Muro, 2011).

A research study by Muro (2011) revealed that commercial banks in Kenya have put in place different CRM systems which include Customer Relations Management Systems, Transaction Processing Systems, Executive Support Systems and Decision Support Systems. The study also found that customer relations management systems are widely used with a majority of the banks rating it at a percentage score of 77.5%. Consistently, Mutua (2011) found that customer satisfaction practices had been embraced to a great extent by Kenyan banks with an average score of 3.8 out of 5. Thuo *et al.* (2011) found that CRM has been embraced by the commercial banks in Kenya for a considerable period of time with 79.4% of the banks reporting to have been implementing CRM for a period of more than five years. Even with this high rate of adoption, it's still not clear whether the CRM practices are yielding the expected results of customer satisfaction, high value customers, customer retention and ultimately increased marketing effectiveness. It is against this background, that this study was carried out to provide additional empirical evidence on the benefits associated with successful implementation of the CRM processes among commercial banks in Kenya.

## 1.2 Statement of the Problem

Companies are now moving away from wasteful mass marketing to precision marketing designed to build strong customer relationships (Kotler *et al.,* 2009). As a result, Customer Relationships Management (CRM) has become increasingly important since studies such as Ryals (2005); Mithas, Krishnan and Fornell (2005); Mwangi (2010); Soliman (2011); Chege

(2013) have demonstrated that if successfully implemented, CRM generates better firm performance by promoting efficiency, productivity and effectiveness of marketing activities. CRM promises outputs such as customer retention Swaminathan, (2004), improvement in cross sell and customer satisfaction Yim *et al*.,(2005) and customer acquisition (Oztaysi, Sezgin & Ozok, 2011).

An argument held by (Reinaltz *et al.* 2004; Verhoef, 2003) states that, since relational resources are difficult to develop and also to copy, they can be sources of long-term competitive advantage for firms. Liberalization, increased number of new entrants and change of customer needs have intensified competition among commercial banks in Kenya. This has promoted the need for commercial banks to differentiate their services using CRM, so that customers who provide them with most profits are attracted and retained (Mutua, 2011).

However, studies such as Gatner Group (2003); Johnson, (2004) have shown that implementation of CRM has been faced with enormous challenges with up to 70% of the CRM projects resulting to losses or no bottom-line improvement on performance (Jain *et al*.,2007). Despite the high adoption rate of CRM by commercial banks in Kenya as shown by studies done by Muro (2011); Mutua (2011); Thuo *et al.*(2011), banks continue to experience high customer churning to new entrants and to micro finance institutions which is an indicator of low levels of satisfaction, customer retention and value of customers. This problem has been attributed to lack of clear guidelines on what constitutes CRM (Payne & Frow, 2005; Wambura, 2012), the extent and the level at which CRM should be implemented (Zablah *et al.,* 2004; Yim *et al*., 2005), characteristics of CRM successful approaches or the reasons as to why CRM may potentially fail (Grabner *et al*., 2002; Reinartz *et al,*. 2004). Other challenges associated to poor performance of CRM include; inefficient measurement of CRM processes (Oztaysi *et al*. 2011), poor knowledge transfer and inaccurate customer data (Wambura, 2012).

Based on an argument held by Zablah *et al*. (2004) that focus on process management is likely to enhance the success of CRM, a question then arises: Could inefficient management of the different phases of the CRM process be the cause of this failure? This study builds on the work of Reinartz, Kraft and Hoyer (2004) in which they conceptualized the CRM process as having three phases which are; Initiation, Maintenance and Termination and that firm should interact with customers and manage relationships differently at each phase.

Other studies on CRM and banking done in Kenya have not focused on process management. For example, Muro (2011) studied CRM systems among commercial banks in Kenya and found that 77.5% were using CRM systems though the outcome was relatively low, Mwangi (2013) focused on the effect of CRM in achieving competitive advantage and found that CRM is a major source of competitive advantage for Kenyan banks, Chege (2013) studied CRM strategies and competitive advantage and concluded that majority of Kenyan banks were implementing CRM strategies and that in a majority of these banks the strategies have partially worked. This study therefore sought to establish the magnitude and the direction of the relationship between CRM process (Relationship Initiation, Relationship Maintenance and Relationship Termination) management and marketing effectiveness in terms of value of customers, customer satisfaction and customer retention at each of the three phases.

## 1.3 Objectives of the Study

This study was intended to achieve the following objectives:

### 1.3.1 General Objective

The general objective of the study was to establish the relationship between the CRM process and marketing effectiveness of commercial banks in Kenya.

### 1.3.2 Specific Objectives

The specific objectives of the study were:

1. To establish the relationship between customer relationship initiation and marketing effectiveness of commercial banks in Kenya.
2. To determine the relationship between customer relationship Maintenance and marketing effectiveness of commercial banks in Kenya.
3. To establish the relationship between customer relationship Termination and marketing effectiveness of Commercial Banks in Kenya.
4. To determine the extent to which the joint CRM process influences marketing effectiveness among commercial banks in Kenya.
5. To examine the moderating effect of Relationship Commitment on the relationship between CRM process and marketing effectiveness among Commercial Banks in Kenya.

## 1.4 Research Questions

The study sought to answer the following questions:

1) What is the relationship between customer relationship initiation and marketing effectiveness of commercial banks in Kenya?
2) How does customer relationship maintenance relate with marketing effectiveness of commercial banks in Kenya?
3) What is the relationship between customer relationship termination and marketing effectiveness of commercial banks in Kenya?
4) To what extent does the joint CRM process influence marketing effectiveness among commercial banks in Kenya?
5) To what extent does Relationship Commitment moderate the relationship between CRM process and marketing effectiveness of commercial banks in Kenya?

## 1.5 Research Hypotheses

**$H_{01}$:** There is no significant relationship between CRM initiation and marketing effectiveness of commercial banks in Kenya.

**$H_{02}$:** There is no significant relationship between CRM maintenance and marketing effectiveness of commercial banks in Kenya.

**$H_{03}$:** There is no significant relationship between CRM termination and marketing effectiveness of commercial banks in Kenya.

**$H_{04}$:** There is no significant joint relationship between the CRM sub-processes and marketing effectiveness of commercial banks in Kenya.

**$H_{05}$:** There is no significant moderating effect of relationship commitment on the interaction between CRM and Marketing Effectiveness of commercial banks in Kenya.

Hypothesis five will also test sub-hypotheses based on each dependent variable**.**

## 1.6 Justification of the Study

There is lack of managerial understanding on how CRM effectiveness should be measured and the extent to which CRM should be implemented. The findings of this study can be used to identify the key CRM process against which the effectiveness of the CRM may be assessed. As a result, organization may be able to identify which phase(s) of the CRM process is/are more significant in terms of return on investment and therefore be able to allocate resources accordingly. The study may also be used as a guide by organizations seeking to implement CRM as one of their marketing strategies.

In addition, existing literature lacks clear guidelines on CRM successful approaches, success factors and the reasons for the high failure rate. The results of this study provide insight on success factors some causes of failure that may be of help to firms in predicting the benefits of the CRM processes and therefore enable them make informed choices while selecting the CRM processes to implement. The study also provides feedback on customers' perception on the CRM implementation which may be of use to the Central Bank of Kenya (CBK) who is the regulator of commercial banks in Kenya, as a practice and policy development reference as far as service provision and customer service is concerned. The study contributes to building the body of knowledge on CRM implementation and its effectiveness by filling the gap in literature on research demonstrated evidence of the benefits of CRM.

## 1.7 Scope of the Study

The study focused on all the 43 Commercial Banks in Kenya and was carried out within Nairobi City County. Nairobi City County was selected for this study because, majority of the banks have their head offices in Nairobi and all commercial banks in Kenya have got branches in Nairobi City County. Therefore, the principles of inclusiveness and homogeneity were met (Kothari and Garg, 2014). In addition, due to the high representation of all the banks in Nairobi County, the region is very competitive and hence the need to embrace CRM as a competitive strategy. The study examined the CRM process and its relationship with marketing effectiveness. This study also sought to establish the moderating role played by Commitment in the management of customer relationships. The study was based on the assumptions that:

i. Customer satisfaction, customer retention and the value of customers are good measures of marketing effectiveness. This assumption is supported by an argument held by (Kotler *et al.*, 2009; Ang and Buttel 2006) which states that when customer expectations are met, the customers are happy and when they are exceeded, the customers are delighted and are likely to become loyal, become advocates for the company and will be willing to pay premium prices for the product thus increasing marketing effectiveness.
ii. That marketing effectiveness is influenced by a firm's relationship with its customers as argued by (Morgan & Hunt, 1994).

## 1.8 Limitations of the Study

The following challenges were encountered during the study:

**Availability of Secondary data-** There is lack of sufficient studies on CRM in the Kenyan banking sector and especially so, the process approach to CRM. It was therefore difficult to obtain adequate secondary data on similar studies to support this study. The study mitigated this by using studies done in other countries and also similar studies in Kenya done in other sectors such as the mobile phone service providers and internet service providers.

**Access to Primary Data** – Access to the respondents was also a challenge as some of the banks consider information about their banks very confidential and therefore limit access. In addition, some of the selected customers were not willing to participate in the study. To control this, the researcher assured bank Management that the information needed was purely for academic purposes. The researcher also assured bank Management that the data was not to be analysed per individual banks, and that the study sought a general view of all the selected banks. The researcher also gave the assurance that the information was to be handled with utmost confidentiality. Following the above mentioned challenges; the data collection process took longer than expected. The researcher however, made use of research assistants to mitigate this problem though in most cases the researcher had to be present in person to seek permission from bank Management and to interview the selected customer care/marketing managers.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This section presents data reviewed from a variety of sources. The chapter is outlined as follows: Theoretical Review, Conceptual Framework, Empirical Literature which is structured into; Relationship Initiation, Relationship Maintenance and Relationship Termination, the Moderating Variable, Indicators of Marketing Effectiveness used in this study which include Customer Satisfaction, Customer Retention and value of Customers, followed by the Conceptual Framework, Critique of Literature and Research Gaps.

## 2.2 Theoretical Framework

This section covers the theories that formed the basis for this study. The section reviews theories related to the relationship process, relationship management outcomes and commitment (the moderating variable). Specifically, the section reviews the following theories: Performance Outcome of CRM model (Reinartz *et al.,* 2004), The Commitment – Trust Theory (Morgan & Hunt, (1994) and The Social Penetration Theory Altman and Taylor, (1973).

### 2.2.1 Performance Outcome of CRM Implementation Model

A key theoretical basis for CRM is the relationship marketing literature and the argument that managing relationships is beneficial for the firm (Reinartz *et al*., 2004). This study builds on "performance outcomes of CRM implementation model" developed by (Reinartz *et al*., 2004).The model helps to conceptualize CRM as a process. The performance outcomes of

CRM model conceptualizes three primary dimensions of the CRM process (initiation, maintenance and termination) and that the management of these processes is associated with firm's performance. The model is in line with the Social Penetration of Altman and Taylor, (1973). The Social penetration supports the notion that relationship development is a process which if well managed can see the relationships mature profitably. This study therefore sought to establish the relationship between CRM and marketing effectiveness. The relationship was linked to three dimensions of marketing effectiveness which are customer satisfaction, customer retention and the value of customers. In addition, the theoretical model contributed towards examining commitment as a key moderating variable, in an attempt to determine the extent to which it weakens or enhances the relationship between CRM and marketing effectiveness. Commitment arises from well managed relationships (Altman and Taylor, 1973). The current study recognises that CRM is a dynamic phenomenon and therefore introduces sub-processes that and CRM not covered Reinartz, *et al.* (2004).

### 2.2.2 The Commitment-Trust Theory

The Commitment Trust Theory of Morgan and Hunt (1994) emphasizes that the presence of relationship, commitment and trust is central to successful relationship marketing. Commitment and trust are key because, they encourage marketers to work at preserving relationship investments by cooperating with exchange partners and resisting attractive short term alternatives, in favour of the expected long-term benefits of staying with the existing partners and view potential high risk actions as being prudent. Therefore, commitment and trust produce outcomes that promote efficiency, effectiveness and productivity of marketing (Morgan and Hunt, 1994).

The successful implementation of CRM requires firms to carefully consider issues of consumer commitment, trust and privacy. It is argued that some customers anticipate what the firm will do with the information and observed behaviour and they sometimes modify their behaviour to obtain a favourable move by the firm. This reduces the share of value for the firm, given that CRM should lead to dual creation of value (Boulding, Staelin, Ehret & Johnson, 2005). The real issue is whether the firm will use the data in a way that helps the consumer (Boulding *et al.*, 2005). Deighton (2005) notes that consumer trust and commitment could significantly undermine CRM activities. In particular, if customers loose trust and consequently commitment to a firm, they will attempt to keep their information private. Firms should think with foresight about trust and privacy implications on CRM activities. This study therefore sought to examine the extent to which presence or absence of commitment may moderate the relationship between the CRM processes and marketing effectiveness.

### 2.2.3 Social Penetration Theory

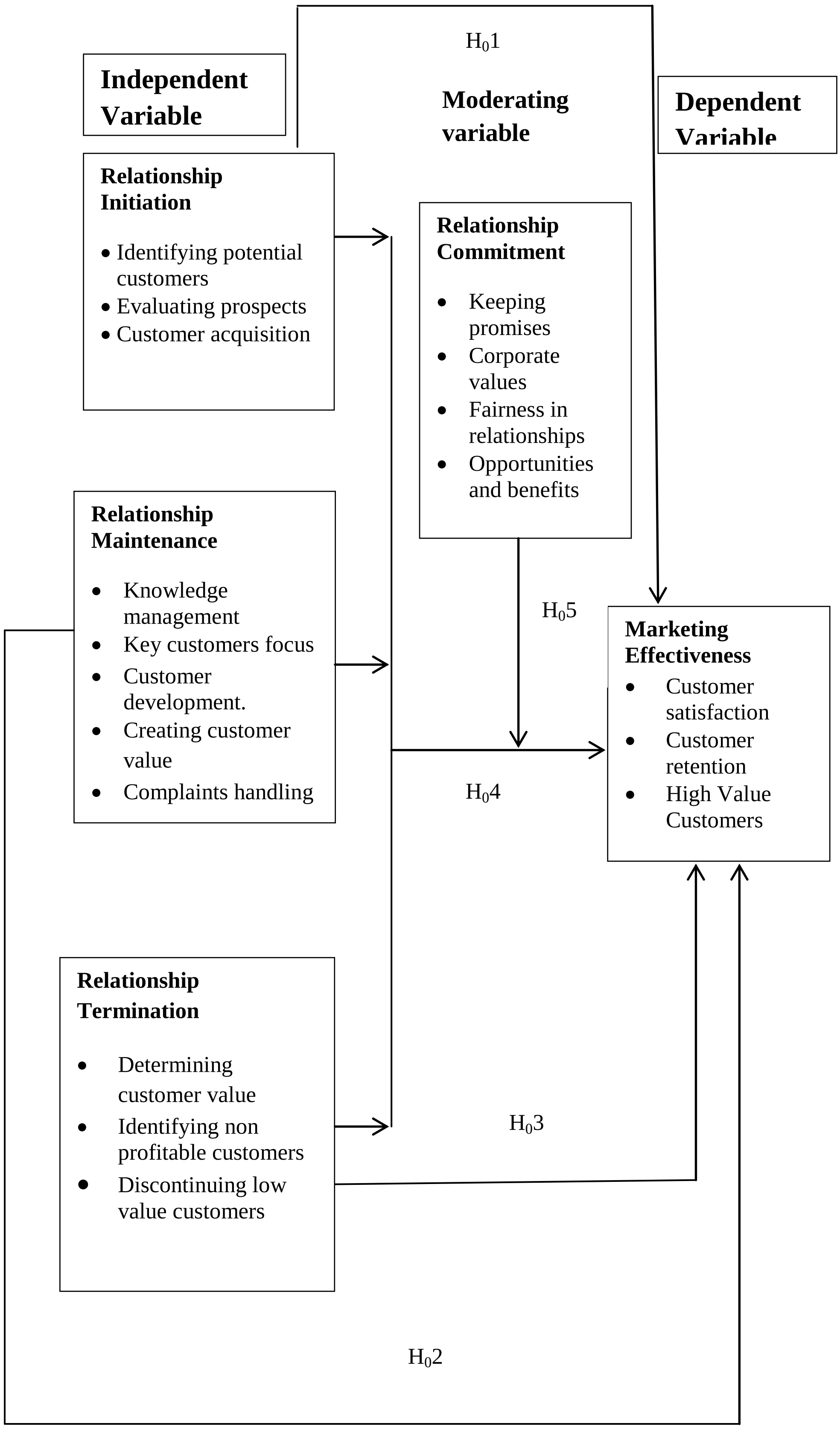
The theory of Social Penetration by Altman and Taylor, (1973) states that parties involved in an exchange relationship, will continue to deepen the relationship as long as the anticipated rewards exceed the anticipated costs. It is therefore important to understand customer perceptions of seller benefits versus switching costs. According to Altman and Taylor, (1973), individuals make only a small part of themselves accessible to other at the initial stages of the relationship. As the relationship develops, they penetrate deeper and deeper into private and personal matters. Thus, the relationship becomes more intimate over time. This theory was used to better understand the framework of developing a relationship.

Altman and Taylor (1973) developed a pattern that is broken into five stages of relational development: Orientation stage where the parties are beginning to interact, Exploratory stage where they begin to get personal, Affective stage where argument and criticism begin to occur, Stable stage where the relationship plateaus and finally the stage where the relationship begins to break down as costs exceed benefits. This theory supports the notion that relationship development is a process which if well managed can see the relationship mature profitably. In relation to CRM, the theory implies that, customers will continue with a business relationship as long as they are getting value and the same argument applies to the firms. The theory also supports the argument that value creation in a relationship, is a process that must be well managed and that loss of value by either side may lead to termination or need for modification. Customers consider past, present, and future transactions, including expectations, when determining whether or not to continue doing business with a company.

The theories play both explanatory and predictive roles. It illustrates relationship development as a process and also demonstrates the fact that relationships thrive when both parties benefit from each other and that relationships may end if either party fails to get value.

## 2.3 Conceptual Framework

The conceptual framework (Figure 1) illustrates the anticipated relationship between CRM and marketing effectiveness as mediated by commitment. The study predicted that effective implementation of CRM processes leads to enhanced marketing effectiveness. Marketing effectiveness was the dependent variable for the study. The dependent variable was assessed in terms of customer satisfaction, customer retention and the value of customers.



$H_01$
Independent Variable
Moderating variable
Dependent Variable
Relationship Initiation
Identifying potential customers
Evaluating prospects
Customer acquisition
Relationship Commitment
Keeping promises
Corporate values
Fairness in relationships
Opportunities and benefits
Relationship Maintenance
Knowledge management
Key customers focus
Customer development.
Creating customer value
Complaints handling
$H_05$
Marketing Effectiveness
Customer satisfaction
Customer retention
High Value Customers
$H_04$
Relationship Termination
Determining customer value
Identifying non profitable customers
Discontinuing low value customers
$H_03$
$H_02$

**Figure 2.1: Conceptual Framework**

This study focused on three independent variables which included relationship initiation, relationship maintenance and relationship termination. The study examined how each one of these dependent variables relates with marketing effectiveness. In addition, the current study examined the moderating role played by commitment, on the Relationship between the CRM process and marketing effectiveness among commercial banks in Kenya. The conceptual model suggest that relationship initiation, relationship maintenance and relationship termination individually relate to CRM and then there is a joint and interactive relationship between the three variables as a process, and marketing effectiveness.

## 2.4 Empirical Literature

This section covers the reviewed empirical literature, structured under the three independent variables (relationship initiation, relationship maintenance and relationship termination), the dependent variable (marketing effectiveness) is discussed under three constructs namely customer satisfaction, customer retention and the value of customers and the moderating variable (relationship commitment).

### 2.4.1 Customer Relationship Initiation

Customer relationship initiation has been found to have an effect on relationship development and customer loyalty, though companies often ignore the long term profitability that makes the initial acquisition cost worth the expenditure (Richard & Jones, 2008). Relationship Initiation is the formation process of the CRM process that involves all the activities that take place before or in the early stages of the relationship with potential customers (Rababah, Molod & Ibrahim, 2011). In this formation process, firms must focus on processes which facilitate potential customer identification and acquisition. Four important decision areas exist which include identifying potential customers, evaluating and selecting prospective customers, deciding on the relational activates to engage in and recruiting new customers (Sheth, *et al*, 2009). CRM at the initiation phase focuses more on how to identify, recruit and establish relationships with the ‘right’ type of customers; customers that have substantial positive impact on marketing effectiveness and ultimately corporate profitability. It is suggested that potential customer selection is a critical element in this competitive strategy (Morgan & Hunt 1994; Zablah *et al.*, 2004).

This study considered identification of potential customers as the first sub-variable of the relationship initiation sub-process. To initiate relationships, organizations need to identify and attract potential customers. Banks are faced with the marketing tasks of customer persuasion and customer stimulation. Stimulation strategy provides customers incentives to enter into a relationship -(Yao and Khong, 2011)The starting point for searching for potential customers is identifying anyone who can conceivably buy the product (suspect) (Berkowitz et al., 1989). This can be done through advertisements, direct mail, phone calls, interviews, sales people, other customers, suppliers, employees, referrals and trade shows. Richard and Jones (2008) demonstrated that improved customer targeting capabilities are positively related to value equity in the initiation stage. Their study found that marketing effectiveness is improved by targeting customers who are more likely to find the firm’s products and services attractive. Once the suspects have been identified, they are then evaluated to qualify them as prospects (Egan, 2011; Kotler & Keller, 2006). It is these prospects that the company then turns into customers then into repeat customers, then into clients and then into members. These members can eventually be turned into advocates and partners (Kotler & Keller, 2006; Berkowitz *et al*., 1989).

In a study of CRM effectiveness in commercial banks of Egypt Sadek *et al.* (2012) reported that that 100% of the selected banks agreed that CRM had helped them increase their marketing performance in terms of attracting new customers. Alhawari (2012) found a positive relationship between customer attraction and customer acquisition, with a 6.3% variation in customer acquisition being explained by customer attraction. The study also reported a positive relationship between customer relationship and customer acquisition. Verhoef (2003) demonstrated that customer recruitment channels have differentiated effects on customer relationship behaviour. The study also found that direct mails lead to a lower retention rate than other channels and that mass media attracted more loyal customers. Websites were found to have positive effect on customer retention. The fact that the website presents the customer with more detailed information, it is therefore able to create a lock-in effect that leads to customer satisfaction (Verhoef, 2003).

Lewis (2006) found that acquisition discount depth is negatively related to repeat-buying rates and customer asset value. Specifically, the study revealed that 35% acquisition discount results in customers with about half the long-term value of non-promotionally acquired customers. This means therefore that customers attracted and recruited through discounts have a lower probability of repurchase. It is however argued that the effect of the acquisition channel holds only during the 1st year of the relationship. From the second year of the relationship, customer experience with the firm becomes more important (Verhoef, 2003).

Evaluating and selecting prospective customers was considered as the second sub-variable in relationship initiation sub process. Evaluating prospects involves selecting which market and which cluster of customers or individual customers will be worth approaching (Buttel, 2010). According to Egan (2011), all prospective customers do not have equal potential and chances of recruitment. It is argued that customers who are highly committed to their current supplier have very high termination cost and therefore might not be the best targets for a firm. Buttel (2010) suggests that, in estimating prospects value companies should seek to answer the following questions: what is the estimated value of the customer? If the customer switches from their current supplier, what proportion of customer spending will the company earn? What is probability that the customer will switch from current supplier? A customer that shows a higher potential contribution is a better prospect while customers who are not committed are more likely to switch to another provider.

As a rule, it is suggested that a prospect should be converted to customer status only when the potential life-time value, exceeds the costs of that customer's acquisition (Blattberg *et al,* 2001) as cited in Ang and Buttel, (2004). Makau (2011) in a study on Kenyan banks found that most banks had a marketing mix for identifying and targeting the 'right' customers and would use customer information to develop new markets. The study also revealed that banks were able to categorize their potential customers and use differentiated communication channels to communicate with these potential customers as indicated by a mean score of 3.632 out of five.

Finally, under relationship initiation, this study looked at customer acquisition. Customer acquisition is important to all companies even where customer retention is justified as the core marketing strategy. It has been observed that 25% or more of customers may need replacing annually (Hanan, 2003; Buttle, 2004). According to Buttel (2010), there are three decisions to be made in customer acquisition: which prospects to target, how to communicate with them and what to offer them. Buttel (2010) argues that customer acquisition programs could produce the effect of a high customer defection rate, simply because new customers are more likely to defect than the existing customers. Verhoef (2003) found that acquisition tactics of customers affect customer behaviour within the relationship. The study reported that customers acquired through very attractive pricing offers are inclined to defect when they receive attractive offers from the competitors. Consistently, Wang, Hing, Chi and Yang

(2004) found that customer acquisition determines the lifetime value of the customer while Thomas (2001) demonstrated that acquisition channels affect the customer retention process.

Another important aspect of customer acquisition is documentation of procedures and processes of acquiring new customers. A study by Ang and Buttel (2004) found that less than 47% of the sample studied had an explicit, documented customer acquisition plan. Only a third of the sample that is 34% assigned a specific budget to customer acquisition activities. 74% of the companies had appointed a specific person or group to be responsible for customer acquisition activities, but only 38% of these were sufficiently aware of customer acquisition costs to be able to estimate customer profitability. Only 42% had conducted tests or experiments in the past 12 months to find more cost-effective ways of gaining new customers. Kobi and Doku, (2010) reported that CRM initiation implementation have the capacity to improve customer acquisition and customer satisfaction. It was therefore, conceptualized that relationship initiation sub-process positively influenced marketing effectiveness in terms of customer value, customer satisfaction and consequently customer retention

Companies vary in the type of objectives they set for customer acquisition. Ang and Buttel, 2004) in their study on Managing for Successful Customer Acquisition, found the following as the most common customer acquisition objectives: specified revenue streams from new customers (84%) of companies studied, numbers of new customers to be acquired (65%), specific named customers to be acquired (57%), and margins to be earned from new customers (53%). In addition, companies must make decisions on how much to spend on acquisition. Buttel (2010) noted that some customer acquisition programmes may require major capital investment as well as incur marketing expenses. Companies can compare the relative cost of customer acquisition per channel because some channels are more effective than others. Reinartz, Thomas and Kumar (2005) in their study assert that under spending on customer acquisition is more detrimental than overspending and results in smaller Return on Investment (RoI) than does overspending. There appears to be a flat maximum with respect to acquisition expenditure. Specifically, Reinartz *et al.* (2005) found that a 10% deviation in acquisition expenditures from the optimal levels results in less than a 1% change in the long-term profitability of a customer.

Ang and Buttel (2004) confirmed that companies that have an acquisition budget are significantly more likely to excel at customer acquisition than those without a dedicated budget ($r = 0.28$, $p < 0.02$). The study found that less than (47%) of the sample studied had an explicit, documented customer acquisition plan. Only a third of the sample (34%) assigned a specific budget to customer acquisition activities. 74% of the companies had appointed a specific person or group to be responsible for customer acquisition activities, but only 38% of these were sufficiently aware of customer acquisition costs to be able to estimate customer profitability. Only 42% had conducted tests or experiments in the past 12 months to find more cost-effective ways of gaining new customers. Buttel (2010) notes that the final choice of prospect to approach will depend on a number of factors which include the estimated value of customer over a period of time, the proportion of customer spending the company is likely to earn and the probability that the customer will switch from the current supplier. Buttel (2010) argues that poorly targeted acquisition efforts waste marketing budget.

### 2.4.2 Customer Relationship Maintenance

Relationship maintenance processes include the mechanisms that firms deploy to nurture and strengthen the relationships with existing customers. The main goal of the firm at this stage is often to retain existing customers, up-sell and cross-sell their products or services with new customized and individualized offers and referral management (Reinartz *et al.*, 2004; Krishnan. Groza, Groza &Fredrick, 2014). This section covers reviewed literature on relationship maintenance outlined under five constructs namely; knowledge management, customer development, focus on key customers, creating customer value and customer complaint handling.

Gathering and managing customer knowledge can be a valuable competitive tool for firms. The effective management of information has a crucial role to play in CRM in that: information is critical in understanding customer needs, product tailoring, service innovation, providing a single and consolidated view of customer, calculating customer life time value, personalizing transactions and for establishing and maintaining relationships (Pepered, 2000; Jayachadran , Sharma, Kaufman & Raman 2005; Badrinarayan & Arnett, 2005). Liu and Wu (2007) note that in order to deliver highly personalised and customised products, banks must use customer database information.

Knowledge in this study takes two perspectives: the knowledge that the customer has about the issues that are related to the product or services that he is interested in buying, and the knowledge that the firm should have that can be used to assist the customer in making a purchase decision. The customers' approach to knowledge management aims at learning from customers and understanding their knowledge needs. To build a maximizing portfolio of customer relationship, firms need to develop knowledge stores that relate to the desirability of prospects, customer defection intentions, needs and preference of customers, likely profitability of current customers and emergence of threats (Crosby & Johnson, 2005).

The ultimate outcome of knowledge management programs is the application of knowledge in a way that creates additional value for the firm and its customers (Badrinarayan and Arnett, 2005). Jayachandran *et al.* (2005) identify five dimensions of relational information processes: Information Reciprocity, Information Capture, Information Integration, Information Access and Information Use. Their study supports the contention that these processes provide guidelines to help firm manage customer information and interact with customers in a way that is consistent with CRM demand. In their study, Mithas *et al.,* (2003) found that CRM applications are positively associated with improvement in customer knowledge.

Chege (2013) in a study on Kenyan banks found that 88.9% of the respondents had tailored their products as a result of customer feedback and that 77.8% reported that their service provision levels had improved significantly after acquiring customer feedback. Alhawari (2012) found that customer relations, customer attraction, customer knowledge capture and customer data analysis have a significant impact on customer acquisition which in turn increases marketing effectiveness. Soliman (2011) found that there is a strong direct and statistically significant correlation between customer knowledge and marketing performance with a coefficient of 0.765 at 0.01siginificance level. Yim *et al.* (2005) found that managing customer knowledge had a significant effect on customer satisfaction and customer retention.

CRM strategies require that organizations adopt both intra and inter-organizational information systems and create both intra and inter-organizational processes that are conducive to knowledge use and sharing. To enhance profitability, information about customers should be gathered through interaction or touch points across all functional areas of the firm and transformed into customer knowledge (Brohman *et al.,* 2003). A study by Constantinous and Sarmaniotis (2003) on CRM and Customer Centric Knowledge Management revealed that 50% of the organizations sampled always or frequently used instruments to evaluate external environment and to asses and obtain knowledge from customers, while the other 50% of the organizations did not employ any Customer Knowledge Management methods and had not adopted any CRM Philosophy. Only 25% carried out marketing research, 41.5% reported having a customer satisfaction recording system, 61.7% had a customer complaint recording system and

90% evaluated CRM as important or very important. Chege (2013) found 44% of the respondents studied had adopted customer care centers as a source of feedback, 88% indicated that they highly adopted relationship managers as a source of feedback from customers. The least adopted source of feedback in the banking sector was suggestion boxes and research companies.

On access to information, 44.6% of the respondents indicated that there was a challenge in obtaining full customer information. Jayachadran *et al*. (2005) argue that providing relevant employees with access to updated information should be a priority for firms practicing CRM. In their study on Enhancing Customer-Needs Driven CRM Strategies, Jayachadran *et al*. (2005) reported that employees found the issue of information access to be more important than dissemination and that providing quick and effective responses to customers, is likely to enhance customer satisfaction. Figure 2.2 shows the components of firm knowledge from both the customers' and the firms' perspective.

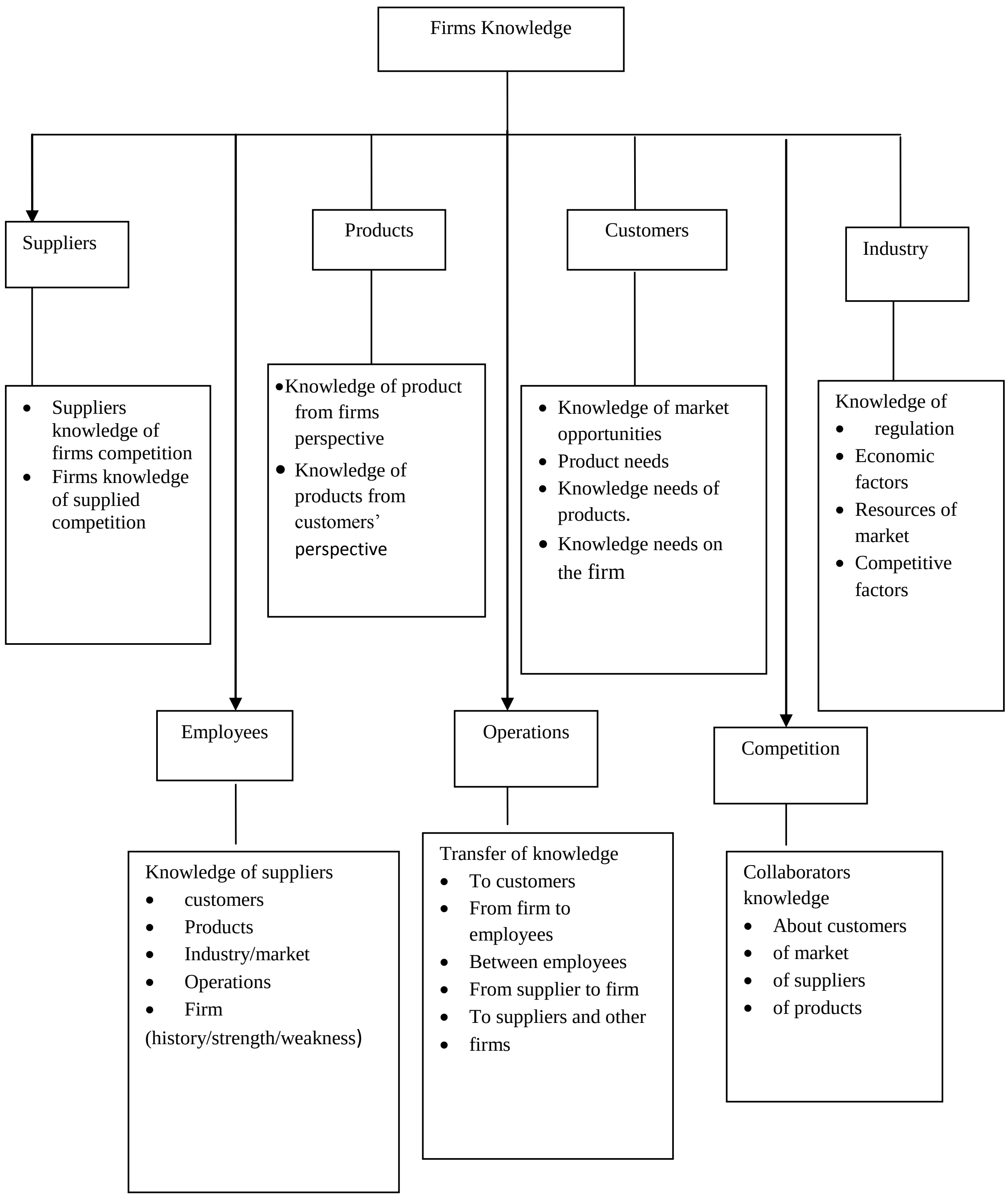



**Figure 2.2: Components of Knowledge.**
Source: Murillo and Annabi, ( 2002)

This study also considered Customer Development as one of the key sub-processes in the relationship maintenance phase. Cross-selling and up-selling were considered as the main activities under this sub process. Companies tend to cross-sell and up-sell products into the existing customer base as a way of building relationships, while still having regard to the satisfaction of the customers. Cross-buying is an indicator of the strength or the breadth of the relationship between the seller and the buyer. It has potential impact on both relationship duration and customer profitability (Kamakura, Mittal, Rosa & Mazzon, 2003; Verhoef & Donkers, 2005). In addition, the frequency of these transactions can be a measure or a sign of quality of the relationship. Buttel (2010) argues that customers will not always respond positively to up-selling and cross-selling and that they may sometimes regard up-selling as opportunistic and exploitative and thereby reduce their level of trust. It is therefore argued that companies should also seek to down-sell to their customers in which case they seek lower cost solutions to customers' problems.

Some of the technologies that are useful in customer development are customer development campaigns, event based marketing, data mining, customization, integrated customer communications and channel integration. In mature markets, where customer acquisition is difficult or expensive, the development of retained customers is an important source of additional revenues (Buttel, 2010). Liu and Wu (2007) argue that banks must use customer database to deliver highly personalized and customized products to meet customer specific demand and thus promote cross-selling. Their study on customer retention and cross-buying in the banking sector revealed that one-stop shopping experience, firm reputation and firm expertise are service attributes that significantly impact on both customer retention and cross-buying.

Another key sub-process in relationship maintenance considered in this study was Focus on Key Customers. Research agrees that it is not all customers, who are of equal value to the firm. Therefore, it is important for firms to identify their 'right customers' so as to ensure profitable allocation of resources (Kotler *et al.,* 2009). Arnet and Badrinarayanan (2005) conceptualized relationship marketing competence as a firm's ability to identify, develop and manage cooperative relationships with key customers characterized by trust, relationship commitment and communication. Key customer focus involves offering more personalized products and services to the more profitable customers in order to cultivate long-term relationships (Kotheri & Armstrong, 2002). It also involves putting in place a customer focused structure, culture, policies and a reward system, as many companies today face powerful and more demanding customers.

A study by Hormburg, workman and Jensen (2002) revealed that increasing emphasis on key account management is one of the most fundamental changes in marketing of organizations today. A common finding of research studies is that best customers do not receive their fair share of attention and that some companies overspend on marginal customers (Reinartz *et al*., 2004). CRM should therefore assist banks in differentiating resource allocation for different types of customers. The strategic view of CRM emphasizes the fact that resources destined for relationship building and maintenance efforts, should be allocated based on customer lifetime value to the firm. Ryals, (2003) argues that maximum profitability can only be achieved when available resources are invested in customer relationships that provide a desired level of returns. Firms must continuously asses their customers' life time value and invest in developing and acquiring a mix of resources that enables them modify their behaviour towards individual customers or group of customers on a continual basis (Peppers *et al.,* 2009). A study by Soliman (2011) found that there is a strong direct and statistically significant correlation between key customer focus and marketing performance with a coefficient of 0.765 at 0.01, level of significance. Yim *et al.* (2005) found that focusing on key customers has a statistically significant effect on customer satisfaction while Ryals (2005) found that focus on key customers creates more value for firms.

Key customer focused activities include: special pricing, customization of products, provision of special services, joint coordination of work flow, information sharing and taking over the business processes. The question that arises is how intense these activities should be pursued. Feinberg, Krishner and Zhang (2002) demonstrate the risk of crossing the line of differential treatment. They reported that there is more switching and low retention of focal customers if another customer receives better treatment from the same firm. They found the same results if similar customers received better treatment from competing firms**.** They noted that customers have norms of what is fair and what is unfair in terms of differential treatment and that it is easy for firms to cross the line in terms of what customers consider unfair. Successful implementation of CRM requires that firms carefully consider issues of customer fairness. Communication is also considered an important aspect of building relationships with key customers as it helps increase the level of trust between the two parties and also provides the customers with a mechanism that can be used to resolve disputes (Arnet & Badrinarayanan, 2005).

Creating Customer Value was also considered as the third construct under relationship maintenance processes. Delivering superior customer value has become a matter of on-going concern in building and sustaining firms' competitive advantage. Customer value has also become an important metric of acquiring, growing and retaining the "right customers" by driving CRM performance. Customer value is created when the benefits to the customer associated with a product or a service exceed the offering's lifecycle cost to the customer. A position of superior customer value is created when the seller creates more value for the customer than does a competitor (Slater & Narver, 2000). According to Buttel (2010); Kotler *et* *al.* (2009) customer value can be increased in two main ways; increasing the benefit the customers experience with a product and decreasing the sacrifices customers make in obtaining, purchasing and using the product.

Ryals, (2005) notes that delivering good customer value has many important quantifiable results for firms which include: Higher customer loyalty and retention, higher market share, reduced operating cost and more positive attitude from employees and customers. Research has demonstrated that firms that deliver good value for their customers secure loyal customers and in turn reap favourable levels of outcome in terms of higher revenues, lower churning and less overhead costs (Buttel, 2010). At individual customer level, Deserbo (2001) demonstrated that value mediated by loyalty results in increased purchases, increased cross-buying and increased word of mouth referrals. Even with these major roles, little empirical evidence is available on the relative importance customer value in relation to CRM (Wang *et al.,* 2004).The current study will attempt to bridge this gap.

Customer value management relies upon customer value assessment to gain understanding of customers' requirements and what it takes in monetary value to fulfil them. Understanding the buyers value within a given offering, creating it for them and managing it over time, have for long been recognized as essential elements of every market oriented firm's core business strategy (Slater & Narver, 1998). Verhoef and Langerak (2000) suggested that a better understanding of the customer value should lead to changes in the way the customers are managed. Ryals (2005) demonstrated that there was a performance improvement attributed to increased customer value, and that larger customers create more total value for the firm.

Customers tend to be maximizers of value within the bounds of search, cost, limited knowledge, mobility and income. They estimate which offer will deliver the most perceived value and act on it. Whether the offer lives up to their expectations, affects the customers satisfaction and the probability that the customer will buy the product again (Ryals, 2005). Satisfied customers tend to buy again, buy more frequently, buy larger quantities and buy other product the company may be selling.

Delivering customer value is key to the success of every organization but the challenge that firms face is the fact that customer expectations are always changing, today's value may be obsolete tomorrow. Therefore, firms must keep on adding value to their products as customers' tastes and preferences change. Narver and Slater (2000) identify the following as barriers to customer value delivery organizational culture, organizational procedural barriers and managerial learning barriers. Studies done by Chege (2013); Mwangi (2013) on CRM revealed that banks in Kenya create customer value through competitive pricing, efficient relationship management, provision of high quality products, proximity of company to customer, convenience of operating hours, use of customer friendly technology interfaces, efficiency in dealing with customer requests. Accessibility of credit facilities and giving personalized services. All these measures recorded an extent of use mean score of between 3.5 and 3.9 out of five.

Finally, under relationship maintenance, this study focused on Customer Complaints Handling and its effect on marketing effectiveness. Even when the customer management motto of 'do it right the first time' enjoys a privileged place, the complete satisfaction of all customer wishes is not always assured, and possible mistakes in the rendering of services may not be excluded (Raab, Asami & Gargeya, 2009). The International Organization of Standardisation's standard (ISO 10002) claims that a major benefit from excellent customers' complaints handling is maintained or enhanced customer loyalty.

Customers complain when they experience one of two conditions; their expectations are underperformed to a degree that falls outside their zone of tolerance and when they sense they have been treated unfairly. The range of tolerable performance will depend upon the importance of the product or the attribute that is giving the complaint. (Buttel 2010) argued that customers who complain give the company a chance to win them back and retain their future value. In addition, the complaints provide information that can help identify and correct root causes of problems and thus increase customer satisfaction and retention (Raab *et al.,* 2009; Ang & Buttel, 2006).

A successful complaint handling process enables the company to capture complaints before customers start spreading negative word of mouth or transfer their business elsewhere. Well- handled complaints increase both customer satisfaction and customer retention. Kotler *et al.* (2009) note that companies that encourage disappointed customers to complain and also empower employees to remedy the situation on the spot, have been shown to achieve higher revenues and greater profits than companies that do not have a systematic way of handling customer complaints. They also argue that handling phone calls more efficiently can improve service, reduce complaints, and extend customer longevity. In their study, Ang and Buttel, (2006) found that excellence in customer retention is strongly associated with the presence of a documented complaints handling process. Documentation of complaints handling processes help to ensure that customer complaints are handled promptly and efficiently.

According to Raab *et al.* (2009) there are four procedures of managing customer complaints which include the Input Procedure that ensures that the customers complaints are known to the company, Case Procedure which involves the quick and non-bureaucratic processing of customer complaints, Feedback Procedure that checks on how satisfied customers are with the complaint handling and lastly the Information Collection Procedure that acquires information that can be used to avert future complaints.(Kotler *et al*. 2009) record that customers are dissatisfied with the purchases 25% of the time but only 5% complain. The other 95% feel either complaining is not worth the effort or they do not know how or to whom to complain and they just stop buying. Of the customers who register complaints, between54% and 70% will do business again with the firm if the complaint is resolved; the figure goes up to 95% if the customers feel the complaint was resolved quickly.

It is argued that customers who complain and are well recovered can be more satisfied and less likely to switch than customers who had no cause for complaint (Ang & Buttel, 2005). In a study on CRM, Chege (2013) sought to establish whether banks in Kenya investigated the root cause of customer complaints as a way of ensuring customer satisfaction; 88 .9% of the banks indicated that they always investigated the root cause. In addition, 66.7% of the banks reported that they regularly informed the customers on the progress of their complaints resolution. Makau (2013) revealed that most banks in Kenya had sufficient and effective systems of responding to customer queries and that they could proactively enquire about service delivery from their customers.

### 2.4.3 Customer Relationship Termination

Relationship termination is the final stage of the CRM process where firms terminate relationships with customers who show no signs of being profitable and those who serve no other strategic purpose (Buttel, 2010; Dwyer, Shurr & Oh 1987; Reinartz *et al.* 2004). Business relationships dissolve when one partner no longer views the other as a worth continuing investment. Literature agrees that, not all customers contribute value to the firm's success and that disengagement remains a possibility in any relationship (Kotler *et al*., 2009; Egan, 2011).

Ending customer relationships is currently viewed as one of the essential elements of marketing management (Reinartz *et al*., 2004; Buttel, 2010). Though, it should be noted that marketers should consider the potential for development for those low value customers before terminating the relationships. Termination of customer relationship is always confronted with the risk of losing a potentially valuable customer. The future value of an apparently dead customer and the collection of marketing costs spent periodically for the purpose of customer maintenance or promotion should be evaluated and compared in order to make a reasonable choice in termination of a relationship. Hence, the decision of relationship termination has to be made on the basis of the future potential of a seemingly unprofitable customer (Samini *et al.,* (2012). Smith and Dikolli (1995) argue that unprofitable customers may be developed to become profitable, by meeting their needs more satisfactorily. This study will attempt to bridge this gap in knowledge by providing empirical evidence of the significance of relationship termination.

An argument held by Su and Robinson (2010) states that business relationship termination is a process and not an event which begins when partners are no longer committed and attracted to each other though business may still be going on. The existence of termination processes and systems in a firm has a positive impact on firm performance (Reinartz *et al.* 2005). Buttel (2010) categorises companies into three with respect to customer sacking behaviour; Category one are the hardliners who take an active and rigorous stance in terminating unprofitable customer relationships. The second category is the appeasers who take a more cautious approach with regard to termination and finally the undecided who are reluctant in terminating the unprofitable customers. Three termination sub-processes of relationship termination process were considered for this study. These included determining customer value, identifying low profit customers and discontinuing low value customers.

Determining customer value forms the first sub-process of the section on Customer Relationship Termination considered in this study. Customer value is a measure of an individual customer or a customer segment profit generation for a company. Evaluating customer value involves analysing the probability that the customer will buy products from the company in future, the cost of serving the customer and the amount of discount rates that will be applied to future net margins. Low value customers are often inactive in terms of buying behaviour and therefore generate little or no profit, since the cost of serving them is about equal to or even exceed their revenues (Buttel, (2010; Shapiro *et al*., 1987). It is also argued that customer value should also be evaluated basing on the word of mouth influence considering that a satisfied customer not only buys but also influences others to buy.

This study also looked at the process of identifying low profit customer as part of the relationship termination process. Low profit customers are those whose cost of maintenance exceeds the value that the firm obtains from them. These may include: fraudsters, persistent late payers, serial complainants, those who are capricious and change their minds with cost consequences for the supplier and switchers who are constantly searching for a better deals (Buttel, 2010). Low value customers can be evaluated using frequency of purchase, the assumption being that customers are most likely to reduce their frequency of purchase before terminating a relationship and the gross margin from the customer's purchase (Venkatesan & Kumar, 2004). It is therefore important for companies to conduct regular reviews of customer base to identify potential candidates for dismissal and avoid sub-optimal deployment of marketing resources.

In their study, Ang and Buttel (2005) found that 85% of the companies studied had a way of identifying clues or advance warnings that customers are about to switch and 19% used format models to predict defection. Though Reinartz *et al.* (2004); Butell, (2010) recommend discontinuation of low value customers, Smith and Dikolli (1995) argue that the purpose of understanding profitability of customers should not be to eliminate unprofitable customers, but to make them more profitable as circumstance change and their needs are met more satisfactorily.

Finally, this study considered discontinuing low value customers as the last phase of customer relationships termination process. Discontinuing low value customers has been recommended by writers such as Reinartz *et al*., (2004; Buttel (2010); Ritter and Geesbro (2010) as way of increasing firm performance. However, according to a study by Oztaysi *et al. (*2011), terminating relationships with unprofitable customers did not show any significant relationship with CRM outcomes.

Buttel, (2010) identifies several ways of sacking low value customers which include raising the price of the product, unbundling the offer, re-specifying or redesigning the products so that it no longer appeals to the customer, re-organizing sales and marketing so that they no longer focus on the sackable segment of customers or changing the communication channel to limit their access to information. It is recommended that firms should have a clear relationship ending strategy. To this extent, research has shown that firms rarely document a clear relationship ending process, and that in many occasions such decisions are made on intuition rather than objective data (Samimi, Aghaie & Shahriari., 2012). Su and Robbinson (2010) demonstrated that considerable resources have sometimes been freed up and put to better use by dissolving unprofitable customer relationships.

Termination of unprofitable customers on the other hand, should be conducted with sensitivity, given that some of these customers may be well connected and spread negative word of mouth to other current and potential customers thus creating cracks in the relationship network (Ang & Buttel, 2005). Su and Robbinson (2010) found that banks are particularly concerned about negative word of mouth advertising as a result of terminating relationships with unprofitable customers and so they are reluctant in actively terminating the unprofitable customers. The study reported that Taiwanese banks declined to terminate relationships but encouraged these less profitable customers to use self-control services like ATMs in order to save operation time and cost. Tahtinen (2002) argues that when relationships are terminated, it is important for firms to manage the consequences of the dissolution for the sake of the other actors in the network. Firms must consider the consequences of the dissolution not only with regard to the affected customers but also the implications on the other customers.

### 2.4.4 Relationship Commitment

Successful relationship marketing requires relationship commitment based on the generation of a foundation of shared interest in which firms and customers are committed to each other. Morgan and Hunt (1994) modelled commitment and trust as key mediating variables in relationship marketing. The study argued that when the two are present in a relationship, they promote efficiency, productivity and effectiveness and also lead to cooperative behaviour that is conducive for marketing success.

A study by Verhoff and Franses (2002) found a highly positive coefficient between trust and customer satisfaction and between commitment and customer satisfaction recording a p-value of (.00). Verhoef (2003) demonstrated that commitment is a significant variable in customer relationships as it affects both relationship maintenance and relationship development. Trust is considered especially critical for relational exchanges because it is a crucial determinant of commitment (Jayachandran *et al.,* (2005). As parties share experiences and asses each other’s motive, trust emerges and risks and doubts are reduced. Mwangi (2013) found that exhibiting high levels of trustworthiness and reliability was highly practiced by commercial banks in Kenya as an indicator of CRM.

Customer relationship commitment  develop when firms Provide resources, opportunities and benefits that are superior to the offerings of alternative partners, maintain high standards of corporate values, communicate valuable information and  avoid taking advantage of their exchange partners (Mogarn & Hunt,1994). The strength of a relationship is usually affected by the degree of commitment between the customer and the service provider. A negatively committed customer will try to end the relationship as soon as possible but may still buy consistently due to exit barriers. Kubi and Doku (2010) argue that the foundation of successful CRM lies in the re-orientation of managerial mind-set to a state of commitment that values customers as the central nervous system of the organization survival in the market place. Managerial support is seen as the basis of addressing CRM as a strategic issue through a holistic process so as to receive superior benefits from the partnerships such as profitability, customer satisfaction and customer retention.

A study by Verhoef (2003) found that affective commitment is an antecedent of both customer retention and customer share development. The study revealed that commitment is a significant variable in relationships and that where customers have a choice; they make commitments to trustworthy partners. (Buttel 2010) asserts that when mutual commitment and trust exists between partners, both are motivated to make investment in the relationship. These investments serve as exit barriers (Raab *et al.,* 2008). If commitment is absent in a relationship conflict and uncertainty rise while cooperation fails. As the relationship evolves over time so does commitment. Verhoef, (2003) suggested that if managers strife to affect customer retention, they should focus on creating committed customers.

However, a study by Jayachandran *et al.* (2005) revealed that not all customers are interested in relationships with companies due to such things as fear of dependency, lack of perceived value of the relationship and lack of confidence in the company. More so with increase in self-service technologies close relationships between the banks and the customers are being weakened. Therefore, researchers suggest that firms should be concerned about customers' attitude towards relationships, privacy and security as they seek to implement CRM.

### 2.4.5 Effect of CRM on Marketing Effectiveness

As more and more firms practice CRM, the question of how to evaluate its performance remains a significant challenge. There is a strong tendency for research to emphasise on one dimension of CRM performance while ignoring the others, which makes it much more difficult for managers to make a deep understanding of the practical implications of different performance measures (Wang *et al*., 2004). Studies done previously on CRM have used different measures of CRM performance. Ryals (2005); Mutua (2011) use retention, Reinartz *et al.*, (2004) use economic performance, Mithas *et al*. (2005) use customer satisfaction, Jayachandaran *et al.*(2005) use a combination of retention and satisfaction while Mwangi (2013) uses satisfaction. Chege, (2013) revealed that 88.9% of Kenyan banks had defined performance metrics related to customer experience at departmental level. This study will use a combination of customer satisfaction, customer retention and the value of customers as indicators of marketing effectiveness and ultimately firm performance.

Studies by Boulding *et al.* (2005); Reinartz *et al*. (2004) found that CRM initiatives have differential effects depending on the level at which they are implemented and that effectiveness of CRM is different at the different stages of the CRM process. The strongest effect was found to be at the maintenance stage followed by the initiation stage. At the termination stage, CRM effectiveness was found to be low or insignificant. Thuo, Kibera, K'Obonyo (2011) found that CRM practices had a moderate explanatory power on marketing effectiveness as it accounted for 33.7% of variability in marketing effectiveness. The study also found that CRM practices enhance organizational competitiveness. Kubi and Doku, (2010) asserted that implementation of CRM has the capacity to improve organizational performance in areas such as customer acquisition, customer development and customer retention.

Another important rationale for CRM is that it improves marketing performance by enhancing customer satisfaction. As customer satisfaction increases, so does the customer intention to repurchase, this in turn influences the actual purchase behaviour which has an impact on business performance (Buttel, 2010). Customer satisfaction is determined by the extent to which a product's perceived performance matches a buyer's expectations. If the perceived performance of a product or service is consistent with consumers' expectations, then customers will be satisfied and be more likely to repurchase (Kotler *et al.,* 2009).

Customers form expectations from their past buying experience, the opinion of friends, associates, marketers, competitor information and the promises made to them. Marketers must therefore be careful to set the right level of expectations (Kotler & Keller, 2006). If the expectations are too low, they may satisfy those who buy and fail to attract enough buyers, if they raise expectations too high, buyers are likely to be disappointed if the product does not measure up to the expectations. In their study, Mithas *et al.* 2005 found that there is a positive association between CRM applications and customer satisfaction and that this relationship is mediated by customer knowledge. Highly satisfied customers produce several benefits for the company; they are less price sensitive, talk favourably to others about the company and its products and remain loyal for a longer period (Mithas *et al*., 2005). High customer satisfaction also means that fewer customers will defect and the long term effect on firm performance can be significant (Wang *et al.,* 2004).

CRM applications are likely to affect customer satisfaction in the following ways: enabling firms to customize their products thus enhancing perceived quality, enabling timely accurate processing of customer orders and requests and finally through effective management of customer relationships during initiation, maintenance and termination of relationships (Mithas *et al.,* 2005). By use of customer knowledge gathered over a series of interactions or touch points and applying CRM-based technology, companies can effectively respond to changing needs of customers. This personalization of products and services further locks the customers into a long-term relationship by adding to the customer switching costs (Mithas *et al.*, 2005).

Customers experience satisfaction at different levels and even a slight drop from complete satisfaction can create an enormous drop in loyalty. According to Kotler *et al*. (2009) completely satisfied customers are nearly 42% more likely to be loyal than merely satisfied customers and that 70% of customers who say they are satisfied with a product or service, are still willing to switch to a competitor. This then means that companies must aim at highly satisfied customers, if they want to hold on to their customers. Rather than treating recurring transaction between buyers and sellers as isolated events, the philosophical view of CRM stresses that these be viewed within the context of an on-going relationship (Shahnam, 2003).

Customer retention on the other hand is beneficial for the firm for the following reasons, customers tend to increase their purchases as the tenure grows, it reduces the cost of customer management over time, committed customers are likely to spread positive word of mouth and that these customers are willing to pay premium prices for the product (Buttel, 2010). According to Buttel (2010), not all customers are worth retaining; companies should focus on retaining customers who add value. The fundamental purpose of CRM is to ensure that the company maintains for profit, relationships with these value adding customers (Raab *et al*., 2008).The choice of these customers should be dependent on the current value of the customers, the potential for growing that value and the cost of maintaining and developing the relationship (Buttel, 2010).

Buttel identifies three important questions that should guide retention decisions: which customers will be targeted? What customer retention strategies will be used and how the customer retention performance will be measured? Acquiring new customers can cost five times more than retaining the current customers (Kotler *et al.* 2009). Studies have shown that on average, 5% reduction in customer defection rate can increase profits by 25% to 85% depending on the industry and that these profits and revenue generation tend to increase over the life of the retained customers. In addition, the customers' maintenance cost tends to decrease with relationship longevity (Kotler *et al*., 2009; Egan, 2011).

Customer retention strategies can be both positive and negative. Negative strategies include: electing high switching barriers such as high capital costs, high search costs or loss of loyal customer discounts to discourage their defection. Positive strategies on the other hand aim at delivering high customer satisfaction through creating customer delight, adding perceived value, creating social and structural bonds and building customer engagement(Kotler and Keller,2006; Buttel, 2010). Kotler and Keller (2006) record that 60% of companies have no customer retention plan in place and that they tend to spend a majority of their time, energy and resources chasing new business, with 75% or more of the marketing budget going to customer acquisition. In their study, Ang and Buttel, (2005) found that only 39% of companies they studied had an explicit documented customer retention plan and only 28% had a specific budget committed to customer retention activities. However, 70% of the companies claimed to have a nominated person or group in charge of the customer retention. It is argued that 5% increase in customer retention can significantly increase profitability ranging from 25% in banking deposit to 85% in car service industry (Yeshin, 2003) cited from Kubi and Doku, (2010). On the contrary, Yim *et al.*, (2004), in their study found that progress made in the management of customer relationships had not substantially increased retention rates. It is however noted that their study focused on high level management. The current study will focus on the customers to get their view of the same.

Effective CRM also involves maintaining for profit relationships with value adding customers. From a firm's point of view, the value of a customer is associated with life time revenues that the firm generates from the customer. According to Kotler *et al.,* (2009) the following strategies could assist firms in increasing their customers' value: Firstly through reducing the rate of customer defection by increasing customer satisfaction. Customer defection increases the cost of acquiring new customers and this reduces the company's profits, increasing the longevity of customer relationship helps increase customer value (Kotler *et al*., 2009). The more involved the customer is with the company, the more he or she is likely to stay and do more business with the firm. This will in turn lead to increased profits.

Secondly, increasing the value of the customers by enhancing the growth potential of each customer through cross-selling and up-selling, thirdly by making low profit customers more profitable by stimulating them to buy more of the company's products and focusing disproportionate effort on high value customers, lastly limiting the target customers to those who both want to hear about a firms particular offer and qualify for that offer (Cao and Gruca, 2005) as cited in (Boulding *et al*., 2004). Kubi and Doku, (2010) note that CRM implementation improves customer retention and loyalty. The customer stays longer, buys and buys more often thus increasing the long term value to the business.

## 2.5 Critique of existing literature

The high failure rate of CRM initiatives is well documented and many barriers to its effective implementation exist. Reinartz *et al.*, (2004) found that the relationship between CRM and firms performance is not as strong as expected. On the other hand, it is also documented that if well implemented, CRM can enhance firm's performance. For instance, Muro (2011) in a study of CRM systems in Kenyan banks found CRM to be a useful business strategy for banks for it helps them understand their customers better, give personalized attention to customers and increase customer service effectiveness. Mutua (2011) found that CRM had helped banks develop a customer-oriented culture, understand important customers, customize for key customers, have unique competences and capabilities as well as put in place early warning systems of identifying customers intending to switch. Ryals (2005) found that business that successfully implemented CRM, are able to increase their profits.

In a study on CRM and customer satisfaction, Mithas *et al.* (2005) found that CRM initiatives are positively associated with an improvement in customer knowledge and that there is a positive association between CRM and customer satisfaction. The study also acknowledges that this association is moderated by factors such as supply chain integration and customer related IT systems. This study therefore sought to add to the body of knowledge empirical evidence on the relationship between CRM and customer satisfaction as an indicator of marketing effectiveness.

Another critical feature of CRM is customer selectivity. CRM as a strategy focuses on building the right relationships with the right customers. However, Feinberg *et al*. (2002) demonstrated that consumer preference for firms is affected not just by prices the consumers themselves are offered but also by the prices offered to others. Feinberg *et al*. (2002) also demonstrated the risk of crossing the line by means of differential treatment. They suggested that managers should consider the long term effect of a targeted promotional strategy alongside its short-term effects. They noted that switchers do not typically get upset when loyalists receive deals because they represent loyalty being rewarded, which seems fair. However, loyalists feel betrayed when they do not receive deals that switchers do. They report that there is lower retention of focal customers when similar customers are perceived to receive better treatment. This study demonstrated that focus on key customers if well strategized, is more profitable for firms than mass promotions.

Customer value is a strategic weapon in attracting and retaining customer. However related studies are rather divergent and the various forms of customer value remain unclear. The growing body of knowledge about customer value is fragmented. Different points of view are advocated for with no widely accepted way of pulling the views together. In addition, the related empirical studies are very limited. There is lack of managerial understanding of what constitutes superior customer value and how to operationalize it. The differential effect of individual dimensions of customer value on the specific CRM dimensions is not clear. This makes it difficult for managers to determine the activities that contribute most to the intended CRM performance outcome (Wang *et al.* 2004).The current study sought to clarify the identified issues by providing additional research based evidence.

With regard to contingency, Reinartz *et al*., (2004), found that notable results are provided by the moderator variables. For instance, there was significant interaction between a CRM compatible organization alignment and CRM effectiveness at both initiation and termination stages. This study examined whether these trends are also applicable among commercial banks in Kenya.

## 2.6 Research Gaps

According to Thomas *et al.* (2004), the widespread application of CRM programs has not led to substantially higher customer retention rates. Unrealized expectations of CRM implementations, however, are not causing many firms to terminate their CRM efforts. Instead, executives are endeavoring to learn from their mistakes and refine their CRM activities and objectives. As such, this study was carried out in order to establish research based evidence on CRM benefits.

There is also the question of why CRM pays off for some organization and not for others and whether a ready-made template can be applied across board to all companies. There is lack of research that takes a broader strategic focus across firms to answer the above mentioned questions. In addition, there is no clear evidence regarding either the characteristics of successful CRM approaches or the reasons as to why CRM may potentially fail. The existing academic literature and practical applications of CRM do not provide a clear indication of what specifically constitute the implementation of the CRM processes (Reinartz *et al*., 2004). The Payne and Frow (2005) identify good measurement process as one of the key components of CRM. However extant literature on CRM lacks clarity on the indicators of successful CRM and the causes of CRM failure. A study was therefore necessary in these areas to shed more light on the two. The constructs used in this study provide a bases on which CRM may be evaluated and compared across firms.

CRM recognises that customers have different needs and thus firms should treat them differently. The question that arises is, how intense should these activities be pursued? Feinberg *et al.,* (2002) demonstrate the risk of crossing the line of differential treatment. They reported that there is more switching and low retention of focal customers if another customer receives better treatment from the same firm. They found the same results if similar customers received better treatment from competing firms**.** They noted that customers have norms of what is fair and what is unfair in terms of differential treatment and that it is easy for firms to cross the line in terms of what customers consider unfair. It is not clear how far fims ought to go in differential treatment. This study sought to provide more insight in this area.

## 2.7 Summary of Literature Review

According to the reviewed literature, it is noted that an important rationale for CRM is that it improves marketing performance by enhancing customer satisfaction, customer retention and the value of customer. As customer satisfaction increases, so does the customer intention to repurchase. This in turn influences the actual purchase behaviour which has an impact on value of the customer and consequently on business performance (Buttel, 2010). CRM applications enable firms to customize their products thus enhancing perceived quality, enabling timely and accurate processing of customer orders and requests (Mithas *et al.,* 2005). Highly satisfied customers are less price- sensitive, talk favourably to others about the company and its products and remain loyal for a longer period (Mithas *et al.*, 2005). High customer satisfaction also means that fewer customers will defect and the long term effect on firm performance can be significant (Wang *et al.,* 2004).

Researchers have argued that customer retention is beneficial for firms as customers tend to increase their purchases as their tenure grows. Customer retention also reduces the cost of customer management over time, and increases the willingness to pay premium prices for the product. Researchers also acknowledge that it is not all customers who are worth retaining and that a company should focus on retaining customers who contribute value (Raab *et al*., 2008). To achieve the required retention rate, companies must commit recourses, make deliberate effort to retain customers and put in place processes, polices and structures. The fundamental purpose of CRM is to ensure that the company maintains for profit, relationships with these value adding customers.

The process perspective of CRM acknowledges that buyer-seller relationships develop over time characterised by a life cycle that evolves to maturity if well managed. Customer relationships are likely to undergo evolution as they mature and that some evolution paths may be pre-planned while others would naturally evolve. When performance of the relationship is satisfactory, partners may want to continue with the relationship and if the relationship does not meet expectations, partners may consider modifying or terminating the relationship (Reinartz *et al*., 2003; Sheth, *et al*., 2009).

The effective management of information has a crucial role to play in CRM in that information is critical in understanding customer needs, in product tailoring, for service innovation, for providing a single and consolidated view of the customer, for calculating customer life time value, for personalizing transactions and for establishing and maintaining relationships (Pepered, 2000; Jayachadran, *et al.,* 2005; Badrinarayan & Arnett, 2005). For effective CRM banks must be able to gather, analyse, transmit and utilise customer knowledge.

Commitment is an antecedent of customer satisfaction and customer share development and customer retention (Verhoef, 2003). Buttel (2010) asserts that when mutual commitment and trust exists between partners, both partners are motivated to make investments in the relationship. These investments serve as exit barriers (Raab *et al.,* 2008). If commitment and trust are absent conflict and uncertainty rise while cooperation fails. As the relationship evolves over time, so does commitment and the customer's intention to stay with the company.

CRM implementation faces challenges that have hindered its rapid growth and its positive outcome. These challenges include lack of clear understanding of what CRM entails and the extent to which it should be implemented, insufficient budgeting, change in Technology, and difficulty in integrating CRM systems with the other management systems, lack of qualified personnel and inadequate implementation and assessment of CRM processes. This has created doubts as to whether CRM produces the expected results.

# CHAPTER THREE:

# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter contains the methods that were used to collect and analyze data to enable the researcher achieve the preset research objectives. The chapter is outlined into: research design, population of the study, sample size, sampling procedure and techniques, data collection instruments and procedures, operationalization of variables and data analysis techniques.

## 3.2 Research Design

This study employed both explanatory and Cross-sectional survey research designs. The multiple designs were used to enable obtain help optimal results in terms of the extent of CRM implementation among commercial banks in Kenya and the relationship between the CRM process and marketing effectiveness (Saunders, Lewis & Thornhill, 2009). Explanatory design was used to enable examine and explain the relationship between the various CRM sub-processes and Marketing Effectiveness while Cross-sectional survey method was used because it allowed for collection of both qualitative and quantitative data which could be analyzed quantitatively using descriptive and inferential statistics (Saunders, *et al*., 2009). The designs were suitable for this study as the focus of the study was to determine and explain the relationship (Fraenkel & Wallen, 2006). Cross-sectional survey have been found to be robust for explaining relationships and has been used successfully in studies such as Raman and Kumar (2008); Thuo *et al.,* (2011). Explanatory research design has also been used successfully by Mekonnin (2012) in a study on CRM in Commercial banks of Addis Ababa.

The study was based on the interpretivist philosophy and adopted the subjectivist view which holds that social phenomena are created from perceptions and consequent actions of social actors. The view also holds that through the process of social interactions, these social phenomena are in constant state of revision (Saunders *et al.*, 2009). CRM is a product of social interactions between service providers and the customers and is continually being revised as the customer's needs and demands change and the relationship evolves. This study sought to establish the relationship between CRM as an evolving process and marketing effectiveness as the outcome.

## 3.3 Study Population

There are 43 commercial banks in Kenya which are licensed, supervised and regulated by the Central Bank of Kenya (CBK). CBK also oversees their operations by carrying out on- site and off-site surveillance in order to ensure safety and soundness of banks. The banks are classified into three peer groups using a weighted composite index that comprises of: asset base, deposits, capital size, number of deposit accounts and number of loan accounts. Bank with a weighted composite index of 5% and above are classified as a large banks, those with a weighted composite index of between 1 percent and 5 percent are categorised as medium size banks while those with a weighted composite index of less than 1 percent are categorised as small banks. The population for this study was the customers of all the 43 commercial banks with deposit accounts, a total of 21.796 million deposit account holders (Bank Supervision Report, 2013).

Commercial Banks were deliberately chosen for the study due to their large customer base that provided the study with a sufficient population from which to sample. The choice was also done based on the intensive implementation of CRM and professionalism in CRM activities as evidenced by studies such as Chege, (2013); Mutua, (2011). Commercial banks in Kenya are faced with market pressure to differentiate products and services from competition and build relationship with customers thus forcing them to embrace CRM.

### 3.3.1 Target Population

The target population for this study comprised of customers of all the 43 commercial banks whose accounts are domiciled in branches within Nairobi City County. This comprises about 8% of the total banking population. The target population for this study was therefore 1,600,000 deposit accounts holders. Nairobi County was chosen because majority of the banks have their head offices in Nairobi and all the 43 banks have got branches in Nairobi City County. In addition, CRM policies for commercial banks are centralised, and therefore, the information collected in Nairobi County was expected to be representative of the other regions (information obtained from a pre-survey carried out between June and August 2014).

## 3.4 Sampling Frame

The sampling frame for the study was drawn from CBK Bank Supervision report 2013 peer grouping of Commercial Banks categorised as large, medium and small. For the period ended 31st December 2013, there were 6 large banks which accounted for 52.4% of the market share, 16 medium size banks with a market share of 39.1% and 21 small banks accounting for 8.5% of the market share (Bank Supervision Report, 2013) see (Appendix V).

## 3.5 Sample and Sampling Technique

An optimum sample according to Kothari (2014) is one which fulfils requirements of efficiency, representativeness, reliability and flexibility.

### 3.5.1 Sample Size Determination

The sample size for this study was determined using Cochran (1977) formula;

$$n = pq\left(\frac{z}{e}\right)^2$$

Where: **n** = the required sample size

**z** = confidence level at 95% (standard value of 1.96)

**p** = Estimated adoption rates of CRM by banks in Kenya (0.5)

**q** = (1-P)

**e** = margin of error the study was ready to accept - 5% (standard value of 0.05)

n = 0.5 x 0.5

$$\left(\frac{1.96}{0.05}\right)^2$$

**n** = 384.16

The sample size adopted for this study was therefore, 385 customers.

Multi-Stage sampling method was used to get an optimum sample of the banks and the customers. At stage one, the banks were categorised into Large, Medium and Small as per Bank Supervision Report (2013) peer grouping. The recommended minimum sample size of 30was used to obtain a proportionate stratified sample from each stratum of the banks (Hogg & Tannis, 2014). A sample of 4 large, 11 medium and 15 small size banks was considered as shown in table 3.1.

At stage 2, proportional stratified random sampling was used to consider the number of customers to be sampled from each cluster of the banks. Each bank category was treated as stratum. The sample size for each stratum was calculated on the basis of the banks category market share as given in the CBK bank supervisory report (2013). Proportional allocation was done under which the sizes of the samples were kept proportional to the sizes of the strata. This helped to ensure all the customers and the banks had an equal chance of inclusion (Kothari and Garg, 2014; Luke & Rubin, 2008). A total of 202 customers were targeted from the large banks, 151 customers from medium and 32 from the small banks, making a total of 385. At stage 3, stratified random sampling was used to select the 30 banks and the 385 customers. In addition, purposive sampling was used to pick on either the Marketing or the Customer Care manager from each of the selected banks. A total of 30 Managers were targeted but only 13 were willing to be interviewed. The interview data was used for validation of the customer responses. This helped the researcher increase the sample statistical efficiency, the validity and the reliability of data (Copper & Schindler, 2006).

**Table 3.1: Distribution of the Sample Size**

| **Target population** | **No. of Banks** | **Bank Sample Size per Stratum** | **Customer Sample Size per Stratum** | **% customer Sample Size** |
|---|---|---|---|---|
| Large banks | 6 | 4 | 202 | 52.4% |
| Medium banks | 16 | 11 | 151 | 39.1% |
| Small banks | 21 | 15 | 32 | 8.5% |
| **TOTAL** | **43** | **30** | **385** | **100%** |

## 3.6 Data Collection Instruments

The researcher made use of a questionnaire to collect primary data from the customers. In addition, an interview schedule was used to collect primary data from Management.

### 3.6.1 Questionnaire

With reference to the reviewed literature, the questionnaire was adapted from Reinartz, Kraft and Hoyer, (2004); Liu and Wu, (2007). The variables adapted from Reinartz *et al.,* (2004) included Relationship Initiation, Relationship Maintenance and Relationship Termination while those adapted from Liu and Wu (2007) included Customer Satisfaction and customer Retention. The questionnaire contained both structured and unstructured questions. The structured questions helped to ensure easy administration of the questionnaire and standardization of the responses, while the open ended questions helped correct in-depth data (Kumar, 2005). The questionnaire used 5-point Likert scale ratings.

### 3.6.2 Measurement of Variables

Section A of the questionnaire contained both open ended and semi structured questions which were used to measure the respondents' specific details while section B comprised of five point Likert scale questions. The respondents were to rate the statements on a scale of 1 to 5 where one was strongly disagree, 2 was disagree, 3 was neutral, 4 was agree and 5 was strongly agree. This allowed for standardisation of responses. The Likert scale questions were followed by an open ended question for each construct aimed at generating more in-depth information.

### 3.6.3 Operationalization of Variables

**Table 3.2 Operationalization Table**

| Type of variable | Variable name | Operationalization of variables | |
|---|---|---|---|
| **Dependent Variable** | Marketing Effectiveness | **Customer satisfaction** | Amount of complaints |
| | | | Number of Referrals |
| | | | Repurchase |
| | | **Customer retention** | Loyalty |
| | | | Reduced sensitivity to price change. |
| | | | Willingness to pay premium prices |
| | | **High value customers** | Reduced overhead costs |
| | | | Increased purchase |
| | | | Low rate of churning |
| | | | Positive word of mouth & referrals |
| **Independent Variables** | Relationship initiation | | Identifying suspects |
| | | | Evaluating suspects |
| | | | Qualifying potentials customer |
| | | | Customer acquisition |
| | Relationship Maintenance | **Knowledge management** | Ability to develop knowledge |
| | | | Dissemination of knowledge |
| | | | Application of knowledge |
| | | **Customer Development** | Growing the value of customers |
| | | | Cross buying |
| | | | Up selling |
| | | | Down selling |
| | | **Focus on key Customer** | Identifying the right customers. |
| | | | Offering personalized products |
| | | | Customer focused structures and policies |
| | | | Special pricing |
| | | | Amount spent on key customers. |
| | | **Creating customer value** | Increasing customer benefits |
| | | | Reducing the sacrifices made by customers |
| | | **Complaints handling** | Documented complaints handling process |
| | | | Input procedure |
| | | | Case procedure |
| | | | Feedback procedure |
| | | | Corrective measures. |
| | Relationship Termination | **Determine customer value** | Probability of buying again in future. |
| | | | Frequency of purchase. |
| | | | Word of mouth influence. |
| | | **Identify non profitable Customers** | The cost of serving the customer |
| | | | Discount rates given |
| | | | Probability of switching. |
| | | **Discontinue low-value customers** | Raising the price |
| | | | Redesigning the products |
| | | | Reorganizing sales and marketing. |
| **Moderating variable** | Commitment | • Opportunities and benefits associated with relationships | |
| | | • Nature of corporate values | |
| | | • Fairness in the relationships | |

### 3.6.4 Interview Guide

An interview guide with open ended questions was used to guide the interviewer in conducting interviews with bank Management. This helped maintain focus on the research objectives and also to ensure that all the required information was captured (Frankael & Wallen, 2006). The interviews were carried out with either the marketing or the customer care manager. Preliminary notification was given before the interview to increase the response rate.

## 3.7 Data Collection Procedure

Having sought permission from Management, the questionnaires were administered in the banking hall as customers waited to be served. The researcher sought the assistance of the operations manager to gain customers' acceptance. Research assistants were used to administer the questionnaire as the questionnaires were to be completed on the spot. The researcher personally conducted the interviews using the key informant method where the marketing, the customer care manager or senior officers responsible for customer relationships were interviewed as they were deemed the most knowledgeable about CRM issues (Raman and Kumar 2008; Thuo *et al.,* 2011).

## 3.8 Pilot Study

A pilot study is a small-scale trial of the proposed procedures and instruments to detect any problems so that they can be remedied before the real study is carried out (Frankael & Wallen, 2006). A pilot study involving 30 customers with deposit accounts was carried out. This constituted about 8% of the study sample. Saunders *et al.,* (2007) recommend a pilot test of between 5% and 10% of the study sample. The pilot study was carried out in branches outside Nairobi County. The pilot data was also used to determine the reliability of the research instrument.

### 3.8.1 Instrument Reliability

Reliability is the extent to which a research instrument yields consistent results or data (Kumar, 2005; Frankel & Wallen, 2006). Cronbach's Alpha (α) was used to determine the reliability based on internal consistency. A computed alpha coefficient of above 0.70 was adopted for this study as recommended by Sekaran and Bougie, (2009); Frankel and Wallen, 2006.

### 3.8.2 Instrument Validity

Validity is the appropriateness, correctness, meaningfulness and usefulness of the specific inferences that researchers make based on the data they collect using a particular instrument (Fraenkel & Wallen, 2006). For this study, both face and content validity of the questionnaire were tested through logic where a logical link between the questions and the objectives of the study was sought. The questionnaire was given to the study supervisors and a CRM expert who through their expertise were able to judge the appropriateness of the instrument. Their recommendations were then incorporated in the questionnaire before its administration. The researcher also put into consideration the views of those who had participated in the pilot study

### 3.8.3 Test for Multicollinearity

Multicollinearity occurs when two or more variables are highly correlated thus creating shared variance between variables, Bryman, (2012). Multicollinearity reduces the efficiency of the estimates for the parameter; as Multicollinearity increases, the effect of each independent variable on the dependent variable decreases (Luke & Rubin, 2006). To determine whether Multicollinearity levels would pose a challenge to the study, regression analysis was conducted to generate the Variance Inflation Factor (VIF) value. A VIF of above 10 was interpreted as indicating problems with Multicollinearity (Bryman, 2012; Hair, Anderson, Tathman & Black, 2012).

## 3.9 Data Analysis and presentation

### 3.9.1 Data Processing

After collection, data was edited to eliminate common mistakes and cleaned to ensure consistency (Luke and Rubin, 2008). Questionnaires were physically checked for completeness and quality of responses. A Further scrutiny of the completed questionnaires was done to ensure accuracy, uniformity and consistency with other facts. Missing values were allocated a neutral value. , coding was done by assigning numerals to the responses to facilitate entry (Kothari and Garg, 2014).

Descriptive statistics such as frequencies and percentages were used to analyse data on demographic variables and the individual questionnaire items. Mean scores and standard deviations were also computed for Likert scale questions. The means and the percentages indicated the extent of implementation of the CRM processes. Where, mean score of below 3.00 indicated that a particular sub-process was implemented to a less extent, a mean of between 3.00 and 3.99 was considered to be moderate while that of above 4.00 indicated that a process had been implemented to a large extent. On the other hand, the standard deviations were used to show the extent of variance on customer perception. A standard deviation of more than one was interpreted as high variation on customer perception, while a standard deviation of less than one indicated less variation. Inferential analysis which included correlations and regression analysis were used to test the relationship between the dependent and the independent variables. Data was presented in the form of tables. Qualitative data analysis was guided by the research objectives and other themes emerging from the data itself. Key issues, concepts and themes were identified by which the data was analysed and interpreted; comparisons and associations were sort, with a view to provide explanations (Bryman & Burgess, 2002).

### 3.9.2 Regression Analysis

Using SPSS software, the data was subjected to regression analysis. Simple linear regression analyses for ($H_{01}$, $H_{02}$**,** and $H_{03}$) and multiple regression analysis for $H_{04}$, were used to establish the nature and the magnitude of the relationship between the dependent and the independent variables and to test the hypothesized relationships. In addition, moderated multiple regression models were used to establish the direction and the magnitude of the effect of the moderator variable, on each of the independent variables and the total effect of the moderator variable, on the dependent variable $H_{05}$. Where, the influence of each variable was determined by the size and the direction (sign) of the standardised regression for the significant terms.

### 3.9.3 Statistical Models

The study used simple regression models for objective 1,2 and 3, multiple regression model for objective 4 and moderated regression models for objective 5 (Gujarat, 2009).

a) **Simple Regression Models**

**Objective one**: $Y = \beta_0 + \beta_1 X_1 + \varepsilon$..............................................................1.1

**Where;**

Y - Marketing effectiveness index (customer satisfaction retention and value)

$B_0$ - The constant

$\beta_{1,}$ - The coefficient

$X_1$ - Relationship Initiation

**Objective two**: $Y = \beta_0 + \beta_2 X_2 + \varepsilon$ ..............................................................1.2

Where;

Y - Marketing effectiveness index

$B_0$ - The constant

| | | |
|---|---|---|
| $B_{2,}$ | - | The coefficient |
| $X_2$ | - | Relationship Maintenance |

**Objective three**: $Y = \beta_0 + \beta_3 X_3 + \varepsilon$..........................................................1.3

Where;

| | | |
|---|---|---|
| Y | - | Marketing effectiveness index |
| $B_0$ | - | The constant |
| $B_{3,}$ | - | The coefficient |
| $X_3$ | - | Relationship Termination |

**b) Multiple Regression Model**

**Objective four**: $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$.......................................1.4

**Where;**

| | | |
|---|---|---|
| Y | - | Marketing effectiveness index |
| $B_0$ | - | The constant |
| $\beta_{1,}$ $\beta 2_{,}$ $\beta_3$ | - | The coefficients |
| $X_1$ | - | Relationship Initiation |
| $X_2$ | - | Relationship Maintenance |
| $X_3$ | - | Relationship Termination |
| $\varepsilon$ | - | The error term |

**c) Moderated Multiple Regression Models**

To determine the direction and the effect of the moderating variable on each of the independents variables and the total effect on the dependent variable, model 1.5 was used while model 1.6 was used to test the joint moderating effect.

**Y** $= \beta_0 + \beta_i X_i + \beta_{iz} X_i Z + \varepsilon$, (i=1, 2, 3) ........................................................1. 5

**Y** $= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_z Z + \beta_{iz} X_i Z + \varepsilon$, (i=1, 2, 3) ..........................1. 6

**Where;**

Y - Marketing Effectiveness Index.

$X_1$ - Relationship Initiation

$X_2$ - Relationship Maintenance

$X_3$ - Relationship Termination

Z - Commitment (the moderating variable).

$\boldsymbol{\beta_{iz}}$ - The coefficient of the interaction term between the moderating variable and variables $X_i.X_3$.

### 3.8.4 Test of Hypotheses

The null hypothesis was rejected based on the significance of the parameters in the regression model. If the null hypothesis $H_0$: $\beta_z = 0$ (t-test) was rejected, then $x_i$ was taken to have significant influence on Y. The interaction term was considered to be significant if the null hypothesis $H_0$: $\beta_{iz}= 0$

The F statistic was used to determine the validity of the model.

# CHAPTER FOUR

# RESEARCH FINDINGS AND DISCUSSIONS

## 4.1 Introduction

This chapter presents the results of data analysis. The data was collected between January and March 2015. The study examined the extent to which management of the different phases of the CRM process influence marketing effectiveness. The study also examined the moderating effect of relationship commitment on the relationship between CRM and marketing effectiveness. Primary data was collected from 25 out of a target of 30 commercial banks as some of the banks declined to support the study. The banks were under three categories as per the Central Bank of Kenya categorisation (large, medium and small size). The study linked the reviewed literature with the findings to enable interpret the data, draw implications and make recommendations. The empirical findings were analysed using descriptive statistics, correlations and regression analysis. The chapter is outlined as follows: response rate, sample characteristics, data Management, reliability testing, and multicollinearity testing, Nomality Test and then descriptive, correlation and regression analysis under each of the study objectives.

### 4.1.1 Response Rate

Response rate refers to the number of questionnaires sent to the field divided by the number which was completed and returned. For this study, 530 questionnaires were distributed out of which 390 were completed and returned. The returned questionnaires were distributed as follows; 215 for large banks, 144 for medium size banks and 31 for the small banks which. This shows a good representation of all the three categories of banks. This translated to a response rate of 72.6%. Five questionnaires were rejected due to inconsistencies and incompletion. The questionnaires that were used for the analysis were therefore 385. According to Mugenda and Mugenda (2003) a response rate of 50% and above is considered adequate. The response rate for this study was relatively high. This was attributed to the fact that the target population was customers and not Management. As noted by Reinartz *et al.* (2004), most studies that target top level management receive a response rate of 15 - 20%. The customers were targeted for the study to test if they actually experience relationship management as they do business with their banks, and if they do, does is it really yield the expected results in terms of marketing effectiveness.

### 4.1.2 Sample Characteristics

#### i) Respondents Bio-data

To understand the characteristics of the sample, the respondents were asked to indicate their gender, marital status and the highest level of education achieved. The results were as shown in table 4.1.

**Table 4.1 Respondents Bio-Data**

| Item | Frequency | Percentage | Cumulative Percent |
|---|---|---|---|
| **Gender** | | | |
| Male | 216 | 56.1 | 56.1 |
| Female | 169 | 43.9 | 100 |
| Total | 385 | 100 | |
| **Marital status** | | | |
| Single | 213 | 55.3 | 55.3 |
| Married | 165 | 42.9 | 98.2 |
| Separated | 4 | 1 | 99.2 |
| Divorced | 3 | 0.8 | 100 |
| Total | 385 | 100 | |
| **Highest level of education** | | | |
| Certificate | 24 | 6.2 | 6.2 |
| Diploma | 91 | 23.6 | 29.9 |
| Bachelor | 189 | 49.1 | 79 |
| Masters | 3 | 16.4 | 95.3 |

| | | | |
|---|---|---|---|
| Others | 18 | 4.7 | 100 |
| **Total** | **385** | **100** | **100** |

The result in Table 4.1 show that 216 (56.1%) were male while 169 (43.9%) were female; this was considered a good representation of both gender for generalization of results. The results indicate that more male than female customers were accessing banking services, a factor that may be attributed to the traditional marginalization of the girl child in Kenya. The Table also shows that a majority of the respondents were single i.e. 213(55.3%) while the married were 165(42.9%) both divorced and separated had a total percentage of 1.8%. The relationship between banking decisions and marital status cannot be ignored as one's banking decisions are likely to be influenced by their spouses. The study attributed the result to the fact that some married couples could have been operating joint account where one partner is more active.

On the highest levels of education, the results show that 49.1% of the respondents had a Bachelor's degree, 23.6% had a college Diploma, and 16.4% had a Maters degree while the remaining 18% were those without tertiary education plus those with more than a Masters degree. This indicates that the respondents were moderately well-educated a factor that was necessary for this study, given that the study required respondents who are able to relate their banking experience with the study questions.

**ii) Source of Customer Information**

To identify the main source of customer information and the channel of recruitment, the respondents were asked to indicate how they got to learn about their banks.

**Table 4.2 Result on how the Customers learnt about their Banks**

| Media | Frequency | Percentage | Cumulative Percent |
|---|---|---|---|
| Advertisement | 40 | 36.4 | 36.5 |
| Through a friend | 124 | 32.2 | 68.8 |
| Through another customer | 75 | 19.5 | 88.3 |
| Others | 45 | 11.7 | 100 |
| **Total** | **385** | **100** | **100** |

The results in Table 4.2 show that 36.6% of the respondents learnt about their banks through advertisements indicating that banks made some considerable efforts to advertise their products and services. With a total of 51% having learnt about their banks through friends or other customers, the results indicate that most of the customers learn about their banks through referrals. This is in agreement with Deserbo (2001) and Egan (2011) that referrals are one of the best methods of recruiting new customers in financial services. The remaining 11.7% of the respondents had learnt about their banks through other means such as sales people, the employer or just walk in due to visibility of the bank.

**iii) Customer Switching**

The study also sought to establish propensity of the customers to switch banks. To this end the respondents were asked to indicate whether or not they had ever switched banks and the number of times they had switched.

**Table 4.3 Switching Chances**

| | Frequency | Percentage | Cumulative Percent |
|---|---|---|---|
| **Whether switched bank** | | | |
| No | 183 | 47.5 | 47.5 |
| Yes | 202 | 52.5 | 100 |
| Total | 385 | 100 | |
| **Number of times switched bank** | | | |
| Once | 80 | 20.8 | 20.8 |
| Twice | 70 | 18.2 | 39.0 |
| Thrice | 36 | 9.4 | 93 |
| Others | 14 | 3.6 | 100 |
| **Total** | **200** | **52.0** | |

Table 4.3 shows that 52.5% of the respondents had ever switched banks while 47.5% indicated that they had stuck to their first choice of bank. These findings support the statement of the problem and the pre-survey carried out between June and August, 2014 that, banks in Kenya continue to experience high customer churning despite the high adoption rate of CRM as revealed by (Thuo *et al.,* 2011; Mutua 2011). An open-ended question was asked on why the respondents switched banks indicated the following as the major reasons poor customer service, inefficient service delivery, poor communication, long queues, high cost of credit, high charges, high minimum balance, inaccessibility of loans, better services from competitors and unreliable ATM machines. The results also show that 60% of those who had switched banks had switched at least twice**.** It may therefore, be deduced that customers do not just switch once but that they keep on switching until they find a bank that satisfies their banking needs.

### iv) Account Termination

The study also sought to establish whether commercial banks actively terminated low value and inactive customer accounts. To measure this, the respondents were asked to indicate whether their terminated accounts were by self or by bank. The results were as shown in Table 4.4

**Table 4.4 Account Termination**

| Account terminated by | Frequency | Percentage | Cumulative Percent |
|---|---|---|---|
| Self | 88 | 87.12 | 87.1 |
| Bank | 13 | 12.87 | 100 |
| Total | 101 | 100 | |

The results reveal that despite the high customer switching rate, majority of the customers who switch do not terminate accounts with their previous banks, as only 26.2% of the respondents who had switched, indicated having terminated the accounts with previous banks. The findings in Table 4.4 revealed that 87.1% of the terminated accounts were by self, while only 12.9% had been effected by the banks. This shows that commercial banks in Kenya are not proactive in terminating relationships with low value customers. Further analysis on the Likert scale question revealed that a majority (61%) of the customer would not encourage their banks to terminate relationship with low value customer. The results suggest that relationship termination is not appreciated by both the customers and the banks.

The findings support the view by Reinatz *et al.*, (2004) that most companies are reluctant in terminating relationships with unprofitable customers.

### 4.1.3 Data Management

**a) Data Editing and Cleaning**

Questionnaires were physically checked for completeness and quality of responses. The incomplete and inconsistent questionnaires were discarded. A more careful scrutiny of the completed questionnaires was done to ensure consistency, accuracy and uniformity. Obvious errors and wrong replies were corrected by reviewing the other information in the questionnaire (Kothari, 2014). In addition, Frequencies were run to helped scan for possible wrong entries any wrong entries were corrected.

**b) Outliers**

The responses of the questionnaire were measured on a likert scale of 1-5 and therefore were not expected to have any strange entries.

**c) Missing cases**

The data had only a few missing cases which could not affect the results and were therefore ignored (Kothari and Garg, 2014).

### 4.1.4 Reliability Testing

Cronbach Alpha was used to determine the reliability of the instrument by establishing how variables of the study related to each other. As shown in Table 4.5, the reliability of the individual sub-variables ranged from 0.706 to 0.904 indicating a high degree of reliability. Reliability of the composite variables ranged from 0.702 to 0.946. The results show that all variables met the threshold alpha of above 0.7 as recommended by Fraenkel and wallen (2006) and were therefore considered for subsequent further analysis. Therefore, the internal consistency was considered to be sufficiently high and to have adequately measured the study variables.

**Table 4.5 Cronbach Alpha values for the Variables**

| Composite varia ble | Variable | Cronbach Alp | Number of Items |
|---|---|---|---|
| Relationship initiation | Composite Relationship Initiation | .779 | 5 |
| Relationship Maintenance | Knowledge management | .802 | 5 |
| | Customer Development | .793 | 5 |
| | Focusing on Key Customer | .786 | 5 |
| | Creating Customer Value | .766 | 5 |
| | Complaint handling | .846 | 4 |
| | Composite Relationship Maintenance | .927 | 24 |
| Relationship Termination | Determining Customer value | .750 | 3 |
| | Determining non profitable customers | .760 | 3 |
| | Discontinuing low value customers | .706 | 5 |
| | Composite Relationship termination | .702 | 11 |
| Marketing Effectiveness | Customer Satisfaction | .904 | 4 |
| | Customer Retention | .877 | 4 |
| | Value of Customers | .859 | 4 |
| | Composite ME | .946 | 12 |

### 4.1.5 Test of Multicollinearity

To determine whether Multicollinearity levels would pose a challenge to the study, regression analysis was conducted to generate the Variance Inflation Factor (VIF) value and tolerance levels. The results in Table 4.6 show that the VIF for relationship initiation was 1.690, knowledge management was 2.410, customer development 2.076, key customer focus 2.434, creating customer value 2.077, complaint handling 1.879, determining customer value 1.838, determining non profitable customers 1.522, discontinuing low value customers 1.032. The results indicate that all the variables had a VIF of less than 10 and tolerance of more than 0.1 ruling out multicollinearity problem. According to Bryman (2012), a VIF of above 10 is an indicator of Multicollinearity problem.

**Table 4.6 Results of Multicollinearity Test**

| Model Coefficients | Collinearity Statistics | |
|---|---|---|
| | **Tolerance** | **VIF** |
| Relationship initiation | .592 | 1.690 |
| Knowledge management | .415 | 2.410 |
| Customer development | .482 | 2.076 |
| Key customer focus | .411 | 2.434 |
| Creating customer value | .482 | 2.077 |
| Complaint handling | .532 | 1.879 |
| Determining customer value | .544 | 1.838 |
| Determining non-profitable customers | .657 | 1.522 |
| Discontinuing low value customers | .969 | 1.032 |

Dependent Variable: Marketing effectiveness

### 4.1.6 Nomality Test

Regression can only be accurately etimated if the the basic assumptions of Multiple regression are met. To test the normality assumption Kolmogorov–Smirnov and Shapiro–Wilk tests were used. The results were as shown in Table 4.7.

**Table 4.7 Results Kolmogorov–Smirnov and Shapiro–Wilk Normality Test**

| | Kolmogorov-Smirnov[a] | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|
| | Statistic | df | Sig. | Statistic | df | Sig. |
| Initiation | .112 | 385 | .000 | .943 | 385 | .000 |
| Maintenance | .061 | 385 | .002 | .981 | 385 | .000 |
| Termination | .090 | 385 | .000 | .985 | 385 | .001 |
| Marketing Effectiveness | .080 | 385 | .000 | .964 | 385 | .000 |
| Initiation log | .157 | 385 | .000 | .823 | 385 | .000 |
| Maintenance log | .104 | 385 | .000 | .913 | 385 | .000 |
| Termination log | .115 | 385 | .000 | .948 | 385 | .000 |
| Initiation SQRT | .135 | 385 | .000 | .896 | 385 | .000 |
| Maintenance SQRT | .081 | 385 | .000 | .956 | 385 | .000 |
| Termination SQRT | .103 | 385 | .000 | .970 | 385 | .000 |
| Marketing effectiveness log | .125 | 385 | .000 | .885 | 385 | .000 |
| Marketing Effectiveness SQRT | .101 | 385 | .000 | .935 | 385 | .000 |

Kolmogorov–Smirnov test and Shapiro–Wilk test were used to test whether the distribution as a whole deviated from a comparable normal distribution. According to Field (2009), if the test is non-significant ($p > .05$) it means that the distribution of the sample is not significantly different from a normal distribution (i.e. it is probably normal). If, however, the test is significant ($p < .05$) then the distribution in question is significantly different from a normal distribution (i.e. it is non-normal). With ($p < .05$) for relationship initiation relationship maintenance, relationship termination and marketing effectiveness, the results in Table 4.7 show that the results were significant even after transformation. This then means that the distribution was different from normal.

To test the significance of departure from normality, Q-Q Plots were done and the results were as shown in Figures 4.1,4.2,4.3,and 4.4.

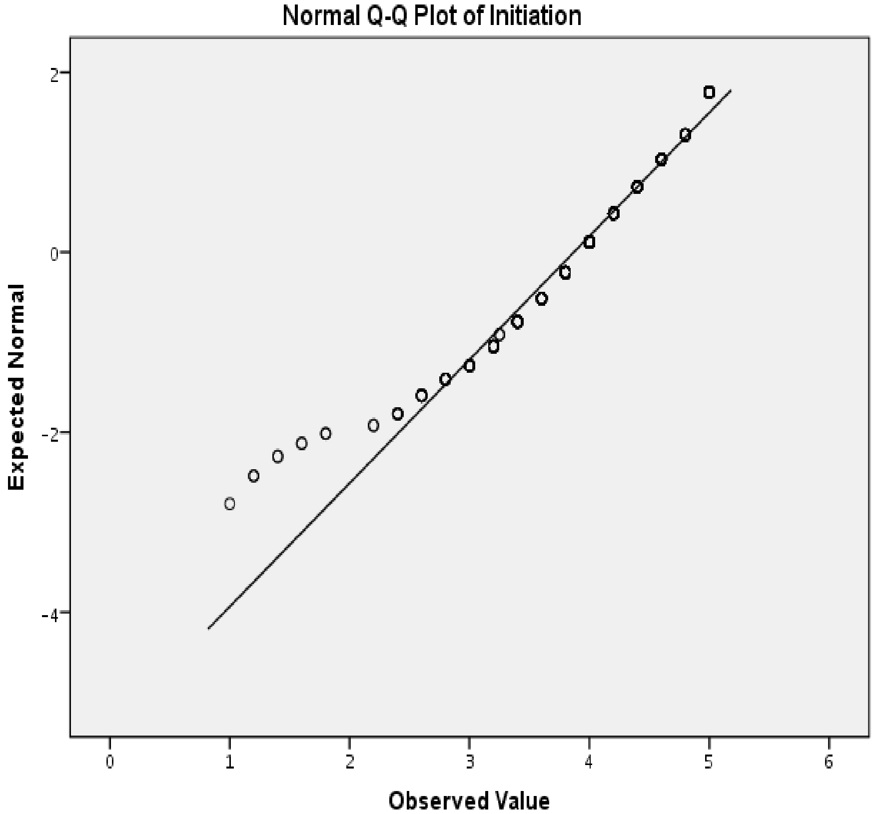



**Figure 4.1 Normal Q-Q Plot for Customer Relationship Initiation**

A look at the Q-Q plot on Figure 4.1 shows that the departure from normality for customer relationship initiation was not much, thus indicating that the data was close to normal and could therefore be used to run the regressions.

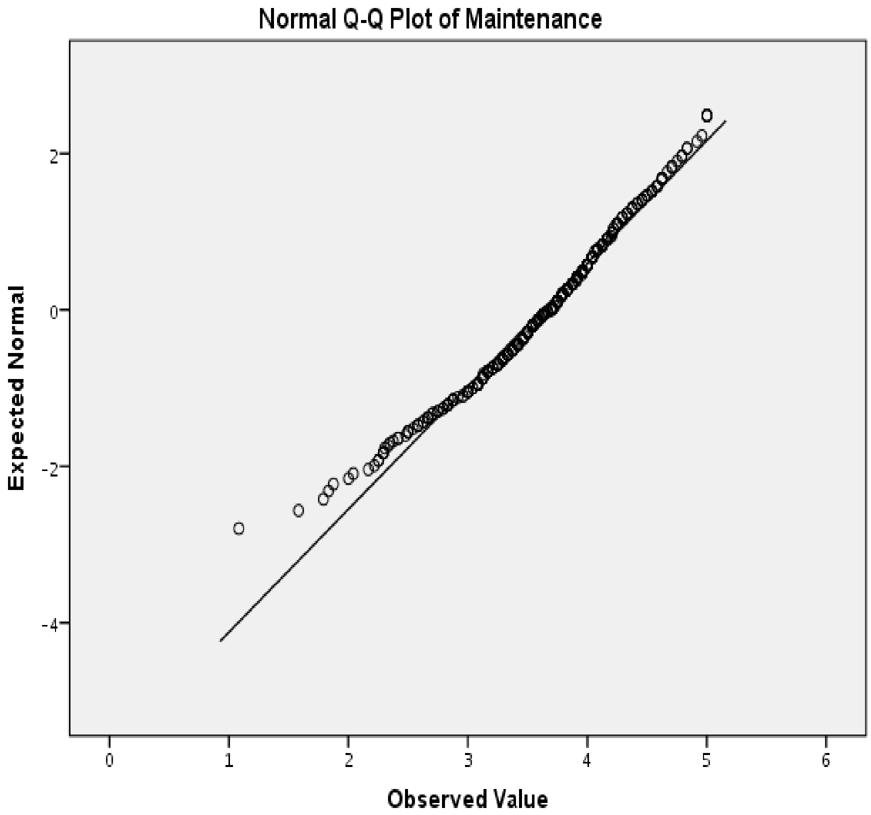



**Figure 4.2 Normal Q-Q Plot for Customer Relationship Maintenance**

Figure 4.2 shows that normality distribution for customer relationship maintenance was approximately distributed along the normal line indicating that the data could therefore be used to run the regressions (Doan & Seward, 2011)

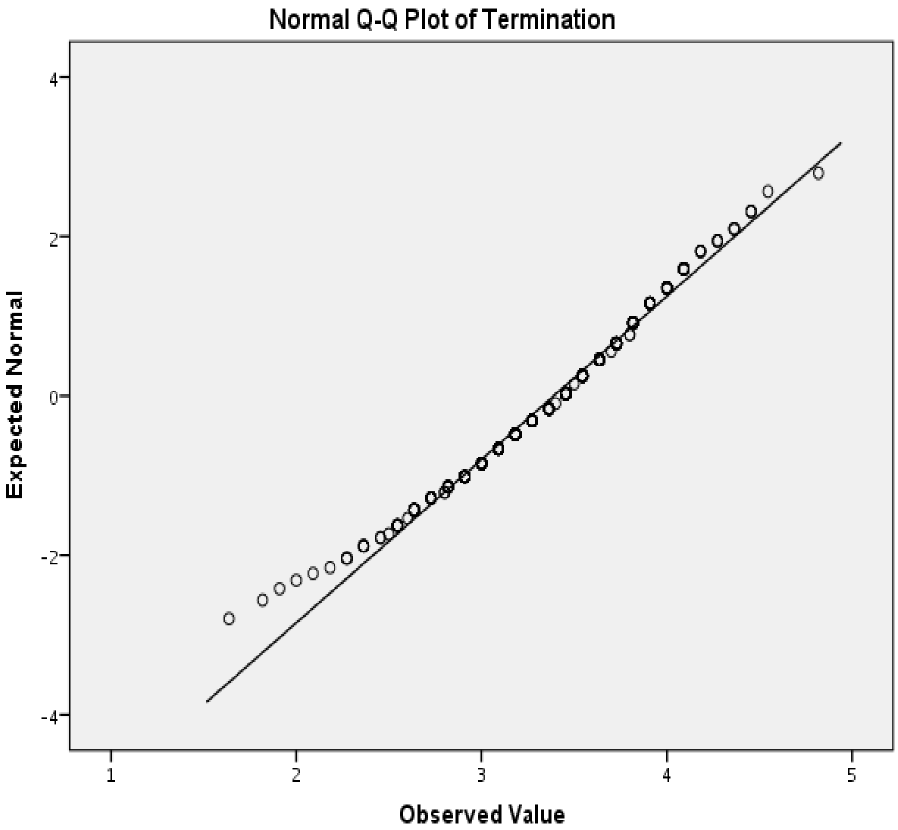



**Figure 4.3 Normal Q-Q Plot for Customer Relationship Termination**

Figure 4.3 shows that normality distribution for customer relationship termination was approximately normal, indicating therefore that the data could be used to run the regressions.

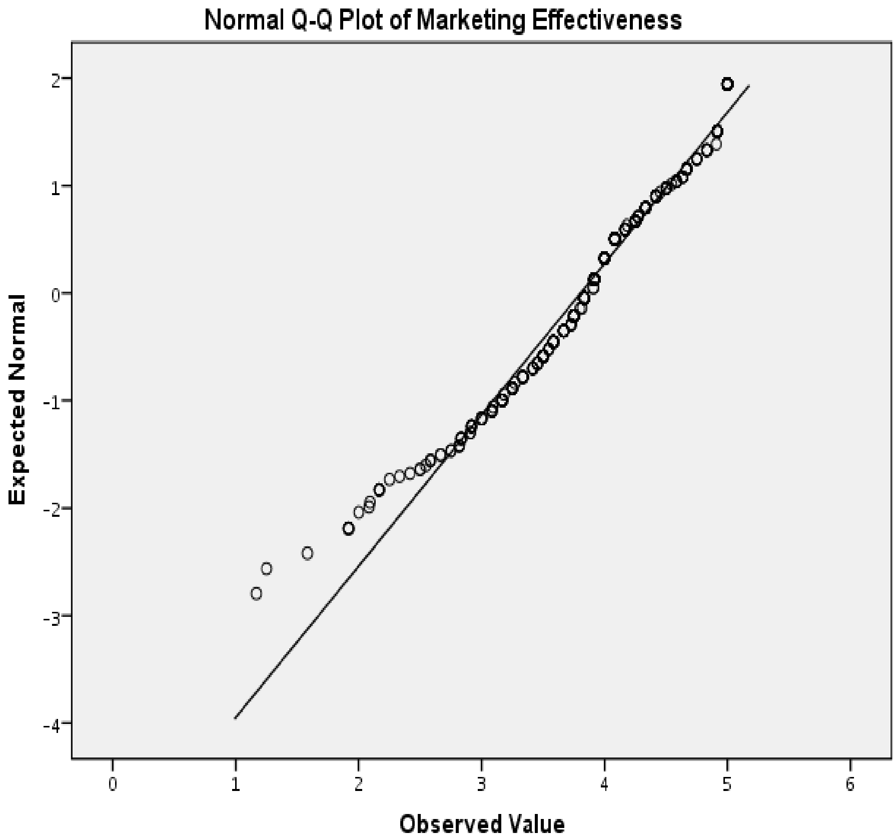



**Figure 4.4 Normal Q-Q Plot for Marketing Effectiveness**

Figure 4.4 Shows that the departure from normality for marketing effectiveness was minimal indicating that the data was close to normal and could therefore be used to run the regressions.

Generally visual inspection of the Q – Q plots showed that the data was approximately normally distributed.

### 4.1.7 Linearity Testing

Pearson product-moment correlation coefficient which is a measure of the strength of the linier association indicated that individual relationships between initiation, maintenance and termination with marketing effectiveness were significantly and positively correlated**.**

Relationship Initiation (r (385) = 0.444; p < 0.001), relationship maintenance

(r (385) = 0.676; p < 0.001) and Relationship termination

(r (385) = .416; p < 0.001).

## 4.2 CRM Initiation and Marketing Effectiveness

This section covers data analysis in relation to objective one which was meant to establish the relationship between CRM initiation and marketing effectiveness among commercial banks in Kenya. The analysis is structured into descriptive analysis, correlation analysis and the regression analysis. To meet this objective, the study sought to first establish the extent to which commercial banks in Kenya proactively initiated relationships with potential customers. The measurement was done using five sub-processes of relationship initiation indicated in Table 4.8.

### 4.2.1 Descriptive Analysis on CRM Initiation

To examine the extent to which initiation processes had been implemented among commercial banks in Kenya, the respondents were presented with a set of statements measuring the different sub-processes and were required to indicate the extent to which the statements applied to their banks. They were to rate the statements on a scale of 1 to 5 where one was strongly disagree, 2 was disagree, 3 was neutral, 4 was agree and 5 was strongly agree. The extent of implementation was indicated by the percentages and the mean scores while the variance on customer perception was indicated by the standard deviations. A high standard deviation indicated high variation of customer perception on CRM implementation, while a standard deviation of less than one indicated less variation on customer perception. For this study, a mean score of below 3.00 indicated that a particular sub-process was implemented to a less extent, a mean of between 3.00 and 3.99 was considered to be moderate while that of above 4.00 indicated that a process had been implemented to a large extent.

The items Table 4.8 were meant to measure the extent of implementation of CRM at the initiation stage. The results show that cumulatively, 84.9% of the respondents agreed that their banks advertised their products and services to enhance the search for new customers. A total of 69.7% of the respondent agreed that their banks had an efficient system of recruiting new customers, 72.6% agreed that their banks used multiple channels of marketing to reach the "right" potential customers, while 72.2% agreed that their banks had effective communication systems that helped attract new customers.

**Table 4.8 Responses on Relationship Initiation**

| Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree | mean | Standard deviation |
|---|---|---|---|---|---|---|---|
| 1. My bank advertises its products and services to enhance the search for new customers. | 3.1 | 3.4 | 8.6 | 43.9 | 41.0 | 4.164 | 0.942 |
| 2. My bank has an efficient system of recruiting new customers. | 2.6 | 5.7 | 22.1 | 45.5 | 24.2 | 3.829 | 0.947 |
| 3.My bank uses sales persons and other channels to target the right potential customers | 3.1 | 7.8 | 16.4 | 44.5 | 28.1 | 3.867 | 1.012 |
| 4. My bank has an effective communication system that helps attract new customers. | 3.1 | 4.7 | 20.1 | 44.3 | 27.9 | 3.891 | 0.969 |
| 5. In my opinion, my bank exploits its potential for customer acquisition. | 6.6 | 9.2 | 24.4 | 38.3 | 21.5 | 3.591 | 1.119 |

N = 385, $\bar{X}$ = 3.869, Figures in %.

With means ranging between 3.829 and 4.164 and the standard deviations between 0.942 and 1.1012, the results indicate that a majority of the banks had implemented relationship initiation processes to a favourable extent. The results suggest that most banks were keen on advertising their products and actively searched for, and initiated relationships with new customers.

The findings are validated by the interview information collected from the managers that most banks had put in place proactive processes and activities of attracting new customers such as big sales team, advertising, branding, call centers, Public Relations activities, targeted marketing communications, bundled offers and bank visibility to attract walk in customers.

A relatively low rating was observed on whether banks exploited their potential for recruitment with a mean of 3.591 and standard deviation of 1.119. The results indicate that a majority of the respondents felt that their banks were not exploiting their potential. The results also show that the amount of advertising done did not translate proportionally to new recruitments. Further analysis on customer expectations during their first encounter with the bank using an open ended question revealed that, customer expect to be given sufficient information on all available products and services, to be treated with courtesy, to be given fast services, fair charges, flexibility, professionalism, honesty, hospitability and individualized attention. The study infers therefore, that if banks adhered to the identified customers' expectations, they may be able to increase their recruitment rates thus increasing the effectiveness of marketing and the overall profitability of the banks.

### 4.2.2 Correlation Results on Customer Relationship Initiation and Marketing Effectiveness

The study sought to establish the linear relationship between relationship initiation and marketing effectiveness. The results were as shown in Table 4.9.

**Table 4.9 Correlation results on Relationship Initiation and Marketing Effectiveness**

| | | Marketing Effectiveness | Relationship Initiation |
|---|---|---|---|
| **Marketing Effectiveness** | Pearson Correlation | 1 | .444** |
| | Sig. (2-tailed) | | .000 |
| | N | 385 | 385 |

**Correlation is significant at the 0.01 level (two-tailed)

The results in Table 4.9 show Pearson product-moment correlation coefficient which is a measure of the strength of the linier association between two variables. The results indicate that relationship between initiation and marketing effectiveness was significant and positively correlated ($r$ (385) = 0.444; $p < 0.001$).This means that when effectively implemented and managed, relationship initiation increases marketing effectiveness. The results agree with those of Richard and Jones (2008) that improved customer targeting capabilities are positively related to value equity in the initiation stage. Their study found that marketing effectiveness is improved by targeting customers who are more likely to find the firm's products and services attractive.

### 4.2.3 Regression Results on Customer Relationship Initiation and Marketing Effectiveness

Under objective one, this study sought to determine the relationship between customer relationship initiation and marketing effectiveness. Regression analysis was used to show the amount of variance in marketing effectiveness accounted for by customer relationship initiation. It was hypothesized that:

> **$H_{01}$:** There is no significant relationship between customer relationship initiation and marketing effectiveness.

To test the hypothesis, model $Y = \beta_0 + \beta_1 X_1 + \varepsilon$ was fitted.

**Table 4.10 Regression Results for Customer Relationship Initiation and Marketing Effectiveness**

| | | | | | | |
|---|---|---|---|---|---|---|
| **Model Summary** | | | | | | |
| Model | R | $R^2$ | Adj. $R^2$ | Std. Error | | |
| 1 | .444a | 0.197 | 0.195 | 0.63752 | | |
| **ANOVA** | | | | | | |
| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
| 1 | Regression | 38.227 | 1 | 38.227 | 94.055 | < 0.001 |
| | Residual | 155.663 | 383 | 0.406 | | |
| | Total | 193.89 | 384 | | | |
| **Coefficients** | | | | | | |
| Model | | Unstand. Coefficients | | Stand.Coefficients | T | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2.129 | 0.176 | | 12.108 | < 0.001 |
| | Initiation | 0.433 | 0.045 | 0.444 | 9.698 | < 0.001 |

a) Predictors(c) CRM Initiation
b) Dependent variable – Marketing Effectiveness

The regression results in Table 4.10 reveal that the relationship between initiation and marketing effectiveness was significant ($F(1,383) = 94.055$, $p < 0.001$). With $R^2 = 0.197$, the model implies that about 20% variation in marketing effectiveness is explained by the management of relationship initiation. This relatively weak association is attributed to the fact that high rate of advertising failed to yield equivalent results in terms of customer acquisition. The study findings indicate that banks failed to meet customers' expectations at the initial encounter, resulting to low recruitment rates and ultimately below expectation CRM outcome at the initiation phase. The model failed to explain 80% of the variation in marketing effectiveness. This means that there are other factors associated with marketing effectiveness which were not explained by the model such as efforts to regain lost and inactive customers. Commercial banks in Kenya may be subject to type II error which means that they are probably reluctant in reviving relationships with lost customers.If a customer has been lost but is still attractive, recovery offers could be made to them e.g. cancellation in the initiation fee or value added services could be offered to them.

In addition the role of employees in customer persuasion and customer stimulation for relationship initiation was not considered in the current study. Yao and Khong (2011) in their study of Taiwanese commercial banks found that recovery management of profitable lost customers was underestimated implying that banks do not implement recovery activities effectively and efficiently.

The model equation for CRM initiation and marketing effectiveness is therefore;

$$ME = 2.129 + 0.433X_1$$

Where ME is marketing effectiveness and $X_1$ is relationship initiation

The results also show that β was significant ($\beta = 0.444$, $t = 9.698$, $p < 0.001$) indicating that for one unit increase in effective management of relationship initiation, marketing effectiveness increases by 0.44 units. With p-value $< 0.05$, the null hypothesis was rejected and the study concluded that there is a statistically significant relationship between customer relationship initiation and marketing effectiveness. This implies that the more firms efficiently implement and manage CRM sub-processes at the relationship initiation phase, the more effective marketing becomes.

### 4.2.4 Discussions on the Relationship between Customer Relationship Initiation and Marketing Effectiveness

This section discusses the study finding under the objective 1 which focuses on the relationship between CRM initiation and marketing effectiveness. From the descriptive analysis, it is evident that a majority of the banks were keen on advertising with 84.9% of the respondents agreeing that their banks advertised their products and services to enhance the search for new customers. The findings are consistent with those of Makau (2011) that a majority of commercial banks in Kenya had a specified marketing mix for identifying, targeting and recruiting potential customers and that they used different channels of communication to obtain new customers. Thomas (2001) demonstrated that customer relationship initiation has an effect on relationship development, customer loyalty and customer retention. Consistently, Kubi and Doku (2010) argue that CRM implementation has the capacity to improve marketing effectiveness in areas such as customer acquisition, customer retention and customer development.

This study deduces, therefore, that this favourable implementation of customer relationship initiation by the commercial banks had a positive influence on marketing effectiveness reported in this study. This augment is supported by the correlation analysis whose results show that customer relationship initiation and marketing effectiveness are positively and significantly correlated. The findings are consistent with those of Alawari (2012) that there is a positive relationship between customer attraction and customer acquisition, with a 6.3% variation in customer acquisition being explained by customer attraction.

On testing the hypothesis, the null hypothesis that there is no significant relationship between customer relationship initiation and marketing effectiveness was rejected and the study concluded that there is a statistically significant relationship between customer relationship initiation and marketing effectiveness. This means that as banks efficiently implement and manage CRM processes at the initiation phase, marketing efforts become more effective. These findings are supported by Thomas (2001) that customer relationship initiation has an effect on relationship development, customer loyalty and customer retention. The findings agree with those of Reinartz *et al*. (2004); Krishnan et al. (2014) that there is a statistically significant positive relationship between the CRM initiation process and Marketing effectiveness.

However, it is also noted that the relationship was not as strong as expected. The current study attributes this moderate CRM to the low recruitment rates resulting from the failure of the banks to meet customers' expectations during the initial contact with prospective customers. The initial customer touch point is believed to have immense power to make or break a relationship as it determines the perception that the customer builds about the bank. As reported in a study by Kobi and Doku (2010), customer relationship initiation implementation, has the capacity to improve organizational performance in customer acquisition and customer satisfaction. Consistently, Verhoef (2003) found that acquisition tactics of customers, affects customer behaviour within the relationship while Wang *et al.* (2004) reported that customer acquisition determines the lifetime value of the customer

## 4.3 Customer Relationship Maintenance and Marketing Effectiveness

This section covers objective two of the study which was: To examine the relationship between customer relationship maintenance and marketing effectiveness among commercial banks in Kenya. The analysis on the objective is outlined into descriptive, correlation and regression analysis.

### 4.3.1 Descriptive Analysis for Customer Relationship Maintenance

Relationship maintenance was measured using 24 items studied under the five constructs namely; knowledge management, customer development, focusing on key customers, creating customer value and complaint handling. The respondents were presented with a set of statements to test the extent to which each of the sub-process had been implemented in their respective banks. The rating was done on a scale of 1 to 5 where one was strongly disagree, 2 was disagree, 3 was neutral, 4 was agree and 5 was strongly agree. The findings were as shown in Table 4.7.

**a. Knowledge Management**

The study sought to establish whether banks had effective systems of collecting, analyzing and utilizing customer knowledge to improve relationships with customers. Knowledge management was measured using five items and the results were as shown in Table 4.7.

The results in Table 4.11 show that cumulatively; 70.95% of the respondents agreed with the statement that their banks use multiple communication channels to ensure effectiveness of communication,62.6% agreed that their banks kept them updated on new product development, 54% agreed that their banks had two way communications with the customers, 67.1% agreed that their banks always availed sufficient and relevant information to customers while 68.5% agreed that the employees always had relevant information that enabled them respond quickly to customer queries. Communication is identified as a critical element in the formation of a relationship (Duncan & Moriarty, 1998). Marketing practitioners communicate with consumers, often with the intention of establishing and maintaining customer relationships. Actively engaging in the development and maintenance of a customer relationship through communication involves sending planned and timely messages to the customers as well as receiving and replying to messages from individual customers.

**Table 4.11: Descriptive results on Knowledge Management**

| Statement | Strongly disagree | Disagree | Neutral | agree | Strongly agree | Mean | Standard deviation |
|---|---|---|---|---|---|---|---|
| 1. Bank uses multiple communication channels to ensure effectiveness. | 2.6 | 11.7 | 14.8 | 45.7 | 25.2 | 3.792 | 1.030 |
| 2. My bank keeps me updated on new product development. | 4.7 | 14.8 | 17.9 | 39.0 | 23.6 | 3.621 | 1.135 |
| 3. My bank has effective two-way communication with customers. | 3.1 | 15.1 | 27.8 | 39.7 | 14.3 | 3.470 | 1.013 |
| 4. Bank always avails sufficient and relevant information to customers. | 2.6 | 9.9 | 20.5 | 48.1 | 19.0 | 3.709 | 0.970 |
| 5. Employees always have relevant information and responds quickly to queries. | 2.3 | 10.4 | 18.8 | 46.6 | 21.9 | 3.753 | 0.988 |

n=385, Average Mean 3.668, Figures in %.

With means ranging between 3.470 and 3.792 and standard deviations between 0.970 and 1.135, the results indicate a moderate agreement with all the statements and that the respondents were fairly homogenous in their responses. This indicates that most commercial banks in Kenya had relatively effective knowledge management systems in terms of collecting, analysing and utilizing customer knowledge.

An open ended question was also posed to the respondent on the kind of information they expected to receive frequently from their banks. The following were cited by a majority of the respondents: transaction alerts, bank statements, bank charges, interest rates on loans change of policy, systems interruptions, new outlets (ATMS, Branches, and Agents) and change in terms and conditions. The study deduces that frequent communication with customers on the highlighted issues would increase customer satisfaction and retention. The more banks communicate the more customers are able to identify with the products and also resolve their issues.

### b. Customer Development and Marketing Effectiveness

The study sought to establish whether commercial banks in Kenya made deliberate effort to develop their customers so as to make them more valuable to the bank and also create value for their customers. Customer development was measured using five items and the results were as shown in Table 4.12.

**Table 4.12 Descriptive results on Customer Development**

| Statement | Strongly | Disagree | Neutral | agree | Strongly | Mean | Standard deviation |
|---|---|---|---|---|---|---|---|
| 1.Bank offers alternative banking methods e.g. m banking ,agency | 3.6 | 5.2 | 4.2 | 36.6 | 50.4 | 4.295 | 1.010 |
| 2.Bank offers opportunity to benefit from its other products and services | 4.9 | 9.9 | 21.3 | 37.9 | 26.0 | 3.701 | 1.071 |
| 3.My bank offers me discounts / incentives while buying | 11.4 | 21.3 | 32.7 | 23.1 | 11.4 | 3.018 | 1.669 |
| additional products(cross buy) | 4.5 | 9.2 | 20.4 | 45.8 | 20.2 | 3.681 | 1.036 |
| 4. Bank offers a wide variety of financial products. | 3.9 | 9.4 | 15.6 | 45.7 | 25.5 | 3.795 | 1.047 |
| 5. Bank encourages me to transact with them more often. | | | | | | | |

n = 385, $\bar{X}$ = 3.689, Figures in %.

The results in Table 4.12 shows that cumulatively, 87.0% of the respondents agreed that their banks offered them alternative methods of banking, 63.9% agreed that their banks offered them opportunities to benefit from their other products i.e. cross-buying, 34.5% agreed that their banks offered them incentives/discounts while cross-buying, 66% agreed that their banks offered them a wide variety of products to choose from, while 71% agreed that their banks encouraged them to transact with them more often. With means ranging between 3.018 and 4.295, the results indicate that the respondents felt that their banks made deliberate efforts to develop them to become more valuable though there was variation on customer perception as indicated by the standard deviations which ranged between 1.010 and 1.669. Most banks engaged in activities meant to develop their customers such as personal banking consultation, business clubs, seminars, customer networking, cross selling and training.

It is notable that the statement that banks offered multiple channels of banking was implemented to a large extent as indicated by a mean score of 4.295. On the other hand, the statement whether banks gave incentives to customers received a low rating with only 34.5% agreeing with the statement. This indicates that majority of the banks were keen on effective communication but reluctant on giving incentives to their customers. Further analysis of the response to the open ended question revealed that customers expect incentives such as discounted rates on loans and mortgages, unsecured loans, soft loans, bonus, financial training, personalised communication and flexibility from their banks. This study relates this non-conformance to customer expectations to CRM outcomes that are below expectations.

### c. Focusing on Key Customers

The items in Table 4.13 sought to establish whether banks had effective systems of identifying and relating with their key customers in order to maintain valuable relationships with them for long. The study findings were as shown below.

**Table 4.13 Descriptive results for Focus on Key Customers**

| | Strongly disagree | Disagree | Neutral | Agree | Strongly agree | Mean | Standard deviation |
|---|---|---|---|---|---|---|---|
| 1. My bank always sends me mails to promote their products. | 15.7 | 25.3 | 14.9 | 28.5 | 15.5 | 3.031 | 1.340 |
| 2. My bank satisfies majority of my banking needs. | 4.4 | 13.3 | 23.2 | 43.8 | 15.4 | 3.524 | 1.044 |
| 3. My Bank offers me customized incentives to increase business with them. | 7.0 | 22.9 | 29.7 | 27.3 | 13.0 | 3.164 | 1.132 |
| 4. My bank has special charges and services for its key customers. | 6.3 | 16.9 | 24.5 | 36.5 | 15.9 | 3.388 | 1.128 |
| 5.Spending more time and resources on high value customers helps retain them | 5.2 | 11.8 | 29.7 | 35.4 | 17.8 | 3.488 | 1.078 |
| . | | | | | | | |

n=385, $\bar{X}$ = 3.689, Figures in %.

The results in Table 4.13 shows that cumulatively, 44.0% of the respondents agreed that their banks often sent them mails to promote their products; direct communication with key customers is recommended as one of the tools for maintaining and developing relationships. Communication increases cross-buying as it makes customers aware of the existing and new products. It also provides the customers with a platform for resolving their disputes hence, leaving them more satisfied (Liu & Wu, 2007; Arnet & Badrinarayanan, 2005). The study links this relatively low rating of the statements to the CRM outcome that was below expectations.

The findings also show that 59.2% of the respondents agreed that their banks satisfied majority of their banking needs, 40.3% agreed that their banks offered them incentives as key customers, 52.4% of the respondents agreed that their banks had special charges for their key customers while 53.2% of the respondents agree that spending more time and resources on key customers increases the customer retention rate. With means ranging from 3.031 to 3.524, the results indicate that the processes had been implemented to a less extent. All the standard deviations were above 1.00 indicating divergent perception among the respondents. The deviation could be explained by the level of implementation of the relationship maintenance processes across banks. From the interview responses, some bank were noted to have implemented Key customer focus to a greater extent through special treatment for key customers such as prestige banking, designated counters, relationship managers and negotiated terms and charges.

An open-ended question posed to the respondents on their expectations as key customers revealed that key customers expect some special treatment from their banks which included special teller, personalised communication, frequent and timely communications, discounted rates and charges, relationship manager, express services, flexibility, high returns on deposits, preferential products and services and quick attention. This implies that banks were not making as much effort as recommended, in ensuring that their key customers got a fair share of banks attention that could encourage them to continue doing business with the bank. This deduces that if banks could endeavour to meet the listed customer expectations, they may be able to attract more business from these key customers and consequently increase the effectiveness of the marketing efforts.

### d. Creating Customer Value

The study sought to establish whether commercial banks in Kenya made deliberate effort to create value for their customers. Respondents were asked to rate their banks on the basis of five value creation aspects on a scale of 1(strongly disagree) to 5(strongly agree). The study findings were as shown in Table 4.14.

**Table 4.14 Descriptive Results on Creating Customer Value**

| Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree | Mean | Standard deviation |
|---|---|---|---|---|---|---|---|
| 1.Bank makes deliberate effort to offer convenience of service to its customers | 2.1 | 3.9 | 6.5 | 40.5 | 47.5 | 4.270 | 0.901 |
| 2. My bank offers value added services | 2.9 | 5.2 | 8.6 | 38.4 | 44.9 | 4.174 | 0.986 |
| 3. My bank makes deliberate effort to offer customer value | 3.1 | 3.9 | 14.4 | 42.7 | 35.9 | 4.042 | 0.971 |
| 4. My bank offers better charges than the competitors | 9.1 | 16.2 | 31.6 | 26.9 | 16.2 | 3.248 | 1.773 |
| 5.My bank gives high quality services | 2.6 | 8.1 | 27.0 | 46.9 | 16.0 | 3.648 | 0.933 |

N = 385, $\bar{X}$ = 3.316, Figures in %

The results revealed that cumulatively, 88% of the respondents agreed that their banks made deliberate efforts to offer them convenience, 83.3% that their banks give them value added services, and 78.6% agreed that their banks made deliberate efforts to offer them value while 62.6% agreed that their banks offered them high quality services. The percentages show a very favourable agreement that banks made deliberate efforts to create customer value.  A further examination of the means for items 1, 2, and 3 (4.270, 4.174, 4.042) respectively revealed that the processes had been implemented to a large extent while items 4 and5 it was implemented to a moderate extent. The standard deviations show there was consensus among the respondents. These results imply that creating customer value was a priority for most banks. The findings were validated by Management interview responses that most banks had put in place value adding measures such as: time value, computerised queuing systems aimed at serving the customer within the shortest time possible, organising for discounted prices at selected shops, cost reduction through bundled offers and taking services to the customers though M-banking, Online banking and Agency banking.

Further analysis on the open ended question revealed the customer expectation of value as: quality services, E-banking, discounted charges, efficient and first services, good customer service, convenience, accessibility of credit embracing Technology. The more banks create value for the customers the more effect marketing becomes.

### e. Complaint Handling

This study also sought to establish whether commercial banks in Kenya proactively monitored and responded to customer complaints effectively and efficiently. Complaint handling was measured using four items on a likert scale of 1(strongly disagree) to 5 (strongly agree).The results are as shown in Table 4.15.

**Table 4.15 Descriptive Results for Complaint Handling**

| Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree | mean | Standard deviation |
|---|---|---|---|---|---|---|---|
| 1.My bank has an effective complaint handling procedure | 3.9 | 10.2 | 24.3 | 49.2 | 12.3 | 3.558 | 0.967 |
| 2. My bank has an effective customer feedback collection procedure | 3.4 | 13.6 | 26.7 | 45.8 | 10.5 | 3.463 | 0.968 |
| 3. My bank responds swiftly to customer complaints | 2.4 | 14.5 | 27.4 | 43.4 | 12.4 | 3.490 | 0.965 |
| 4. My bank listens to the customer to identify with their problems. | 1.9 | 9.9 | 24.7 | 50.7 | 12.9 | 3.627 | 0.897 |

n=382, $\bar{X}$ = 3.536, Figures in %.

The results reveal that cumulatively; 61.5% of the respondents agreed that their banks had effective complaint handling procedures, 56.3% agreed that their banks had an effective customer feedback collection procedure, 55.8% agreed that their banks responded swiftly to customer complaints. With means ranging between 3.463 and 3.627, the results indicate that the processes were moderately implemented. The standard deviations were all below one indicating that the respondents were fairly homogenous in their responses. This implies therefore, that a majority of the banks had systems that enabled them monitor and handle customer complaints. These findings were validated by information corrected from management that banks had put in place systems and procedures to receive customer complaints with specified resolution time. A majority of the banks had a customer care desks, 24-hour manned call centers, gave progress reports on the complaint resolution to the affected customers and delegated authority for decision making to enable quick responses to customer queries. An open-ended question was posed to find out the respondents expectations on complaints handling. Majority noted that they would like their complaints resolved promptly, exhaustively, with concern, handled by well-informed staff and that they expected to be informed of the resolution progress.

### 4.3.2 Correlation Results for Customer Relationship Maintenance and Marketing Effectiveness

After testing for reliability, the composite sub-variables were computed by averaging the items under each sub-variable as shown in Table 4.16. The composite sub-variables were then used to run the correlation between customer relationship maintenance and marketing effectiveness.

**Table 4.16 Computed sub-variables**

| Composite variable | Variable | Name/Abbreviation | Cronbach Alpha | No. of Items |
|---|---|---|---|---|
| Relationship | KM | Knowledge management | .802 | 5 |
| Maintenance | CD | Customer Development | .793 | 5 |
| | FKC | Focusing on Key | .786 | 5 |
| | CCV | Customer | .766 | 5 |
| | CH | Creating Customer | .846 | 4 |
| | | Value | | |
| | | Complaint handling | | |

The findings in Table 4.16 show that all the sub-variables met the threshold reliability of 0.7 indicating high level of reliability of the instrument. All the variables were used for the correlation analysis shown below.

**Correlation Results for Customer Relationship Maintenance and Marketing Effectiveness**

To specify the strength and direction of the linear association between CRM maintenance process and marketing effectiveness, Pearson correlation test between the computed relationship maintenance sub-variables and the dependent variables was conducted. The results were as shown in Table 4.17.

**Table 4.17 Correlations between Marketing Effectiveness and Maintenance Sub- Variables**

| | | | KM | CD | FKC | CCV | CH |
|---|---|---|---|---|---|---|---|
| **Marketing Effectiveness** | Pearson Correlation | 1 | .537** | .492** | .570** | .598** | .550** |
| | Sig. (2-tailed) | | .000 | .000 | .000 | .000 | .000 |
| | N | 385 | 385 | 385 | 385 | 385 | 382 |

Where; KM - Knowledge Management, CD - Customer Development, FKC- Focus on Key

CCV- Creating Customer Value and CH – Complaint Handling.

The results in Table 4.17 show that creating customer value is positively and significantly correlated with marketing effectiveness at ($r = .598^{**}$, $P < 0.001$).These findings supported by (Buttel 2010) that creating customer value increases firm's performance in terms of higher revenues, lower churning and less overhead costs. The results are also consistent with Deserbo (2001) that creating customer value results in increased purchases, increased cross-buying and increased word of mouth referrals ultimately increasing marketing effectiveness.

Knowledge management was also found to be positively and significantly correlated with marketing effectiveness ($r = .535^{**}$, $P < 0.001$).

The analysis also establish that focusing on key customer positively and significantly correlates with marketing effectiveness ($r = .570^{**}$, $p < 0.001$).The findings agree with those of Soliman (2011) that there is a strong direct and statistically significant correlation between key customer focus and marketing performance with a coefficient of 0.765, at 0.01, level of significance. Consistently, Yim *et al.* (2005) found that focusing on key customers has a statistically significant effect on customer satisfaction while Ryals (2005) found that focus on key customers creates more value for firms as the key customers tend to give the firm a more significant amount of business.

Customer complaints handling also positively and significantly correlated with marketing effectiveness at ($r = .550^{**}$, $p < 0.001$). The findings are supported by Kotler *et al.* (2009) that that companies that encourage their disappointed customers to complain and also empower employees to remedy the situation on the spot, have been shown to achieve higher revenues and greater profits than companies that do not have a systematic way of handling customer complaints. The findings agree with Johnston (2001) that there is a significant correlation between complaint management and customer satisfaction and that good complaint culture and processes lead to improved financial performance of the firm. Customers who have successfully recovered after a complaint not only remain loyal but can also become advocates for the company.

The results also show that customer development though positively and significantly correlated with marketing effectiveness at ($r = .492^{**} p < 0.001$), the relationship was less significant compared to the other constructs. These findings are supported by Buttel (2010) that customers sometimes regard cross selling and up selling as exploitative and opportunistic thereby reducing their level of commitment and trust to the firm.

**Table 4.18 Correlation results on Relationship Maintenance and Marketing Effectiveness**

| | | Marketing Effectiveness | Relationship Maintenance |
|---|---|---|---|
| **Marketing Effectiveness** | Pearson Correlation | 1 | .676** |
| | Sig. (2-tailed) | | .000 |
| | N | 385 | 385 |

**Correlation is significant at the 0.01 level (two-tailed)

The computed relationship maintenance positively and significantly correlated with marketing effectiveness and recorded the strongest coefficient at ($r = .676^{**}$, $p < 0.001$).

This implies that the more firms efficiently implement and manage the relationship maintenance process the more effective marketing becomes. The results are consistent with Robinson (2012) that there is a significant positive correlation between two way communication and customer satisfaction and between database management and marketing performance.

### 4.3.3 Regression Results for Customer Relationship Maintenance and Marketing Effectiveness

Regression analysis was conducted to determine the proportion of marketing effectiveness (dependent variable) which could be predicted by Customer Relationship Maintenance (dependent variable). It was hypothesized that:

> $H_{01}$: There is no significant relationship between Customer Relationship maintenance and marketing effectiveness.

To test this hypothesis, the model Y= $\beta_0 + \beta_2 X_2 + \varepsilon$ was fitted. Table 4.19 shows the regression analysis results between customer relatioship maintenance and marketing effectiveness.

**Table 4.19 Regression Results on Customer Relationship Maintenance and Marketing Effectiveness**

| | | **Model Summary** | | | | |
|---|---|---|---|---|---|---|
| Model | R | $R^2$ | Adj.$R^2$ | Std. Error | | |
| 1 | .676a | 0.457 | 0.455 | 0.52435 | | |
| | | **ANOVA** | | | | |
| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
| 1 | Regression | 88.586 | 1 | 88.586 | 322.19 | < 0.001 |
| | Residual | 105.304 | 383 | 0.275 | | |
| | Total | 193.89 | 384 | | | |
| | | **Coefficients** | | | | |
| Model | | Unstand. Coefficients | | Stand. Coefficients | t | Sig. |
| | | B | Std.Error | Beta | | |
| 1 | (Constant) | 1.071 | 0.155 | | 6.926 | < 0.001 |
| | Maintenance | 0.755 | 0.042 | 0.676 | 17.95 | < 0.001 |

a) Predictors(c) CRM Maintenance

b) Dependent variable – Marketing Effectiveness

The regression results in Table 4.19 show that the association between relationship maintenance and marketing effectiveness was positive and significant, ($F$ (1,383) = 322.19, $p < 0.001$). With $R^2 = 0.457$, the model implies that about 46% variation in marketing effectiveness is explained by variations in relationship maintenance. This moderate performance may be attributed to the fact that banks had more elaborate process at this phase and we keen on maintaining relationship. The model failed to explain 54% of the variation, meaning that there are other factors associated with marketing effectiveness which were not fitted in the model such as referral management and employee motivation. The model equation is therefore,

$$M.E = 1.071 + 0.755X_2$$

Where M.E is marketing effectiveness and $X_2$ is relationship maintenance

$\beta$ was also significant with ($\beta = 0.676$, $t = 17.95$, $p < 0.001$) indicating that, for one unit increase in relationship maintenance, marketing effectiveness increases by about 0.676. Since p-value < 0.05, the null hypothesis was rejected and it was concluded that there is a statistically significant relationship between customer relationship maintenance and marketing effectiveness. This implies that the more efficiently firms implement and manage CRM sub-processes at the maintenance phase, the higher the effectiveness of marketing.

### 4.3.4 Discussions on the Relationship between Customer Relationship Maintenance and Marketing Effectiveness

This section discusses the findings on objective two of the study which focuses on the relationship between CRM Maintenance and marketing effectiveness. Both the descriptive and the correlation analysis in section were analysed under five constructs namely knowledge management, customer development, focusing on key customers creating customer value and handling of customer complaints.

On knowledge management, the findings of this study indicate that most commercial banks in Kenya had relatively effective knowledge management systems in terms of collecting, analysing and utilizing customer knowledge with 70.95% of the respondents agreeing that their banks use multiple communication channels to ensure effectiveness of communication and 67.1% agreeing that their banks always availed sufficient and relevant information to customers. The findings agree with those of Makau (2011) and Mwangi (2010) that most banks in Kenya had systems in place for capturing, sorting and analysing customer data.

Based on the findings by Alhari (2012); Soliman (2011); Yim *et al.* (2005); Swaminathan (2004) that customer knowledge capture and customer data analysis have a significant impact on customer acquisition, customer satisfaction and customer retention and consequently marketing effectiveness, this study infers that this relatively high implementation of CRM maintenance in terms of customer knowledge management positively impacts the relationship between CRM and marketing effectiveness at the maintenance phase. The argument is supported by Lambert (2004) that CRM processes can be used to provide structures on how relationships with customers can be developed and maintained. The argument also agrees with the correlation analysis results that, knowledge management is positively and significantly correlated with marketing effectiveness at ($r = .535^{**}$ $P < 0.001$).

With regard to focusing on key customers, the findings suggest that banks were not putting as much effort as recommended to maintain their key customers. The findings agree with those of Reinartz *et al.* (2004) that the best customers do not receive their fair share of firms' attention. The study deduces that though correlation analysis established that focusing on key customer positively and significantly correlates with marketing effectiveness, the failure to prioritise relationship with key customers may have resulted to the moderate CRM outcomes at the maintenance phase, therefore supporting the statement of the problem that inefficient management of the CRM processes could lead to CRM performance that is below expectations. A Study by Swaminathan (2004) found that focus on main customers directly and indirectly affects customer satisfaction and customer retention, while those of (Yim *et al.* 2005; Ryals, 2005) found a statistically significant effect of focusing on key customers on customer satisfaction and on the value of customers Sheth *et al.* (2009) recommended that firms should be selective and that they should tailor their programs and marketing efforts to increase marketing productivity. These words are echoed by Kotler *et al.* (2009) that it is not all customers who are of equal value to the firm; some are more valuable than others. They recommend that firm's should identify their key customers and treat them differently to earn value from them.

On customer development the descriptive results show that majority of the respondents felt that their banks made deliberate efforts to develop them with 63.9% agreeing that their banks offered them opportunities to cross-buy and benefit from their other products and 71% agreeing that their banks encouraged them to transact with them more often. Verhoef and Donkers (2005) found that cross-buying has potential impact on both relationship duration and customer profitability and that customer development has potential impact on both relationship duration and customer profitability. In addition, they argued that the frequency of these transactions can be a measure or a sign of quality of the relationship. This study therefore deduces that this favourable rating of the customer development construct had a positive and significant effect on the association between relationship maintenance and marketing effectiveness. The argument is supported by the correlation results that customer development is positively and significantly correlated with marketing effectiveness at

($r = .492^{**} p < 0.001$).

The descriptive result on creating customer value, show that creating customer value is a priority for most banks with 83.3% of the respondents that their banks give them value added services. The findings are supported by Desarbo (2001); Ryals (2005) that creating customer value increases marketing effectiveness and firm performance. Boulding *et al.* (2005), note that if well implemented, CRM should lead to creation of value for both the firm and the customers. This study therefore infers that this considerable effort to create customer value contributed to the positive association between relationship maintenance and marketing effectiveness. This proposition is in line with the correlation analysis which demonstrated that creating customer value is positively and significantly correlated with marketing effectiveness at ($r = .598^{**}$, $P < 0.001$).

Finally, on customer complaints, the deceptive results show that a majority of the banks had effective systems of monitoring and handling customer complaints with 61.5% of the respondents agreeing that their banks had effective complaint handling procedures. The findings agree with those of Chege, (2013); Makau, (2011) that a majority of commercial banks in Kenya had effective systems for monitoring and handling customer complaints. These positive findings are supported by Kotler *et al*. (2009); Ang and Buttel (2005) that, well handled complaints increases customer satisfaction and that customers who complain and are well recovered can be more satisfied and less likely to defect than those who had no cause for complaints. This study, therefore, deduces that these positive findings significantly contributed to the positive and significant relationship between CRM maintenance and marketing effectiveness. This argument agrees with the correlation results which show that effective complaint handling is positively and significantly correlated with marketing effectiveness at
($r = .550^{**}$, $p < 0.001$).

Generally, the correlation results indicate that all the constructs of customer relationship maintenance show a strong positive correlation with marketing effectiveness which was statistically significant at 0.01, level of significance and that the constructs have differentiated effect on marketing effectiveness. The most important construct was found to be the creation of customer value. The findings agree with those of Thuo *et al*. (2011) that among the most important CRM practices for maintaining and developing customer relationships in the banking sector, are creating customer value, focus on key customers and knowledge management.

On testing the hypothesis, the null hypothesis that there is no significant relationship between CRM Maintenance and marketing effectiveness was rejected and the study concluded that there is a statistically significant relationship between CRM maintenance and marketing effectiveness. These findings agree with those of Soliman, (2011); Krishnan *et al.* (2014) that there is a strong positive relationship between relationship maintenance and marketing effectiveness. The findings also agree with Kamakura *et al.* (2002) that company profitability and ultimately marketing effectiveness increases when they get their current customers to more intensively use their services and buy additional products. The findings are also supported by Aurier and N'Gloala, (2010) that companies can generally improve their performance when they develop their relationship with customers. Relationship maintenance and development, results into greater dependence on the service provider and higher switching cost for the customer as the relationship deepens, and therefore prevents the customers from terminating relationships.

### 4.4 Customer Relationship Termination and Marketing Effectiveness

This section covers data analysis on objective three of the study which was to determine the relationship between customer relationship termination and marketing effectiveness among commercial banks in Kenya. Through descriptive analysis, the study sought to first establish the extent to which banks were actively identifying and terminating relationships with low value customers. Reinertz *et al.* (2004) recommend that to increase effectiveness of marketing initiatives, companies should terminate relationships with low value customers.

### 4.4.1 Descriptive Analysis on Customer Relationship Termination

Relationship termination was measured using 11 items based on three sub-processes namely: determining customer value, determining none profitable customers and discontinuing low value customers. The respondents were presented with a set of statements meant to measure the customers' value and the extent to which banks were willing to discontinue relationships with the low value customers. The rating was done on a scale of 1 to 5 where one was strongly disagree, 2 was disagree, 3 was neutral, 4 was agree and 5 was strongly agree.

#### a. Determining Customer Value

Descriptive analysis was done to establish whether banks in Kenya proactively established and maintained relationships with high value customers. Three aspects of a high value customer were used to determine whether the customers were valuable. The results were as shown in Table 4.20.

**Table 4.20 Descriptive Results for Determining Customer Value**

| Statement | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Standard Deviation |
|---|---|---|---|---|---|---|---|
| 1. Am willing to open another account with my bank if need be. | 4.7 | 7.3 | 18.0 | 53 | 16.9 | 3.703 | 0.988 |
| 2. The numbers of transactions I do with my bank are significantly high. | 2.1 | 12.7 | 27.0 | 42.6 | 15.6 | 3.668 | 0.969 |
| 3. I can always recommend my friends to join my bank. | 3.1 | 4.7 | 19.0 | 46.8 | 26.4 | 3.896 | 0.945 |

n = 383, $\bar{X}$, 3.695 Figures in %

The findings in Table 4.20 revealed that 69, 9% of the respondents agreed that they were willing to open another account with their banks if there was need to do so, 58.2% agreed that the number of transactions they did with their banks were significantly high, while 73.2% agreed that they could recommend their banks to their friends. With means and standard deviations (in Parenthesis) of; 3.703(0.988), 3.668 (0.969) and 3.896 (0.945) respectively, the findings indicate that the responses were fairly homogenous and were in agreement that a majority of the banks had a good percentage of valuable customers. This implies that a majority of the banks made deliberate efforts towards maintaining relationships with high value customers.

### b. Determining Non Profitable Customers

The study used three aspects of a profitable customer to determine if commercial banks in Kenya made deliberate efforts towards maintaining relationships with profitable customers. The indicators included the magnitude of business done with the bank, the willingness to continue doing business with the bank and number of transactions. The results are as shown in Table 4.21

**Table 4.21 Descriptive Results for Determining Non - Profitable Customers**

| Statement | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Standard Deviation |
|---|---|---|---|---|---|---|---|
| 1. A good amount of my income goes through my bank. | 2.6 | 6.8 | 14.0 | 45.2 | 31.4 | 3.961 | 0.979 |
| 2. I don't intend to switch from my bank any time soon. | 3.7 | 6.8 | 20.1 | 43.6 | 25.8 | 3.812 | 1.014 |
| 3. I frequently deposit and withdraw money from my bank. | 3.1 | 5.0 | 16.2 | 44.1 | 31.6 | 3.961 | 0.979 |

n = 385, $\bar{X}$ 3.898, Figures in %

The findings revealed that cumulatively, 76.6% of the respondents agreed that a good amount of their income was paid through their banks, 69.4% agreed that they did not intend to switch from their banks any time soon while 75.7% agreed that they frequently withdrew and deposited money in their accounts. This indicates that they gave their banks a significant amount of business.

### c. Discontinuing Low Value Customers

This study also sought to establish whether banks in Kenya had effective systems of identifying and discontinuing relationships with low value customers. The results were as shown in Table 4.22.

**Table 4.22 Descriptive Results for Discontinuing low value customers**

| Statement | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Standard Deviation |
|---|---|---|---|---|---|---|---|
| 1. My bank actively discontinues relationships with low value customers. | 14.0 | 16.4 | 28.8 | 35.3 | 5.5 | 3.018 | 1.398 |
| 2. My bank has an effective system of identifying low value customers. | 13.3 | 25.3 | 19.0 | 38.8 | 3.6 | 2.943 | 1.148 |
| 3. My bank offers products that do not meet my expectations. | 5.5 | 14.5 | 39.0 | 36.4 | 4.9 | 3.203 | 0.936 |
| 4. I would encourage my bank to discontinue relationships with low value customers | 34.8 | 26.2 | 20.3 | 16.1 | 2.6 | 2.251 | 1.169 |
| 5. The status of my accounts denies me access to some of my banks service. | 18.6 | 19.6 | 20.1 | 29.8 | 12.3 | 2.982 | 1.311 |

n = 385 $\bar{X}$= 2.618, Figures in %

The descriptive results in Table 4.22 show a less favourable agreement with all the five items where only 35.5% of the respondents agreed that their banks actively discontinued relationships with low value customers, 38.8% agreed that their banks had an effective system of identifying low value customers, 36.4% agreed that their banks offered them products that do not meet their expectations, while only 29.8% agreed that the status of their accounts denied them access to some of their banks products. With means ranging between 2.255 and3.203 and standard deviation between 0.936 and 1.398, the results indicate that the processes were implemented to a less extent, while the standard deviations denote divergent opinions among the respondents. It can therefore, be deduced that commercial banks in Kenya are reluctant in discontinuing relationships with low value customers and that this could have resulted the lower CRM outcome reported at the termination phase.

### 4.4.2 Correlation Results on Customer Relationship Termination and Marketing Effectiveness

To specify the strength and direction of the linear association between customer relationship termination and marketing effectiveness, correlations between the customer relationship termination index and the dependent variable were run.

**Table 4.23 Correlation Results between Customer Relationship Termination and Marketing Effectiveness**

| | | Marketing Effectiveness | Termination |
|---|---|---|---|
| **Marketing Effectiveness** | Pearson Correlation | 1 | .416** |
| | Sig. (2-tailed) | | .000 |
| | N | 385 | 385 |

** Correlation is significant at the 0.01 level (2-tailed).

The results in Table 4.23 show that relationship termination is positively correlated with marketing effectiveness ($r (385) = .416$; $p < 0.001$) indicating that relationship termination positively affects marketing effectiveness. This implies then that the more efficiently banks implement and manage relationship termination processes the more effective marketing becomes. Inactive are expensive for the bank as they accumulate inactive charges and negative balances. Terminating these accounts reduces cost for the bank and ultimately increases marketing effectiveness.

### 4.4.3 Regression Results on Customer Relationship Termination and Marketing Effectiveness.

The study sought to determine the relationship between Customer Relationship Termination and marketing effectiveness of commercial banks in Kenya. It was hypothesized that:

> **$H_{03}$** There is no significant relationship between customer relationship termination and marketing effectiveness.

To test the hypothesis, the model $Y = \beta_0 + \beta_3 X_3 + \varepsilon$ was fitted. The regression results were as shown in Table 4.24.

**Table 4.24 Regression Results on Relationship Termination on Marketing Effectiveness**

| | | | | | | |
|---|---|---|---|---|---|---|
| **Model Summary** | | | | | | |
| Model | R | $R^2$ | Adj. $R^2$ | Std. Error | | |
| 1 | .416a | 0.173 | 0.171 | 0.647 | | |
| **ANOVA** | | | | | | |
| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
| 1 | Regression | 33.632 | 1 | 33.632 | 80.378 | < 0.001 |
| | Residual | 160.258 | 383 | 0.418 | | |
| | Total | 193.89 | 384 | | | |
| **Coefficients** | | | | | | |
| Model | | Unstand. Coefficients | | Stand. Coefficients | | |
| | | B | Std. Error | Beta | t | Sig |
| 1 | (Constant) | 1.749 | 0.232 | | 7.551 | < 0.001 |
| | Termination | 0.606 | 0.068 | 0.416 | 8.965 | < 0.001 |

a) Predictors(c) CRM Termination
b) Dependent variable – Marketing Effectiveness

The regression results in Table 4.24 show that the relationship between relationship termination and Marketing effectiveness was significant ($F(1,383) = 80.378$, $p < 0.001$). With $R^2 = 0.173$, the model implies that about 17.3% variation in marketing effectiveness is explained by variation in management of relationship termination. This study deduces that this low variation accounted for by the model is a result of inefficient management of the CRM processes at the termination phase. The findings of this study revealed that majority of the banks were reluctant in terminating low value customer with only 12% of the terminated accounts effected by the banks. However, the model did not explain 83% of the variation, meaning that there are other factors associated with marketing effectiveness which were not fitted in the model. These factors may include effort to develop low value customers to profitability.

The model equation for relationship termination and marketing effectiveness is therefore;

$$M.E = 1.749 + 0.606X_3$$

Where, M.E is marketing effectiveness and $X_3$ is relationship termination.

β was also significant ($\beta = 0.416$, $t = 8.965$, $p < 0.001$) indicating that, for one unit increase in relationship termination, marketing effectiveness increases by about 0.416 units. Since p-value $< 0.05$, the null hypothesis was rejected meaning therefore that, there is a statistically significant relationship between customer relationship termination and marketing effectiveness. The findings imply that the more efficiently banks implement and manage relationship termination, the higher the effectiveness of marketing.

### 4.4.4 Discussions on the Relationship between Customer Relationship Termination and Marketing Effectiveness

This section covers discussions on the relationship between customer relationship termination and marketing effectiveness. The descriptive analysis on relationship termination was done under three constructs which included determining customer value, determining non-profitable customers and discontinuing low value customers. The descriptive analysis show that majority of the banks had made attempt to maintain relationships with value adding customers as indicate by an average mean score of 3.695. The customers were noted to be giving the bank a considerable amount of business with an average mean score of 3.898. Mwangi (2010) demonstrated that using customer knowledge organizations are better able to identify valuable customers.

However, a majority of the banks were reluctant in terminating relationship with the low-value customer as indicated by an average mean score of 2.618.The findings agree with those of Reinartz *et al.* (2004) that most firms are reluctant in discontinuing relationship with low value customers. It is also evident that a majority of the customers would not encourage their banks to discontinue relationships with low value customers as only18.7% agreed with the statement. These findings are supported by an argument held by Smith and Dikolli (1995) that the purpose of identifying unprofitable customers should not be to discontinue them but to make them more profitable by meeting their needs. Consistent with Smith and Dikolli (1995), Oztaysi *et al.* (2011) in their study, found that terminating relationships with unprofitable customers did not show any significant relationship with CRM outcome. In the contrary, the correlation results for the current study show that customer relationship termination and marketing effectiveness are significantly and positively correlated at ($r (385) = .416$; $p < 0.001$). The results are supported by Su and Robinson (2010) that relationship termination helps free up resources which may then be put into better use thus increasing marketing effectiveness. Consistently, hypothesis testing demonstrated that there is a statistically significant relationship between relation termination and marketing effectiveness. The findings are also supported by Shapiro *et al.* (2010) that low value customers generate little or no profits for the bank, since the cost of serving them is about equal to or exceeds their revenues. On the other hand, the findings contrast those of Oztaysi *et al.* (2011) that terminating relationships with unprofitable customers did not show any significant relationship with CRM outcomes.

Given that this study had also revealed that 87.1% of respondents with terminated accounts were by self, and that only 12.9% had been terminated by the banks, these results support the statement of the problem that probably the poor management of the three phases of the CRM process could have resulted to a CRM outcome that is below expectations. Reinartz *et al.* (2004) and Buttel (2010) recommend termination of relationships with low value customers. This argument is supported by an argument held by Reinartz et *al*. (2004) that companies are subject to Type II error, in that they are reluctant in terminating relationships with low value customers causing CRM outcome that is below expectations.

## 4.5 Joint effect of CRM on Marketing Effectiveness

This section covers data analysis in relation to objective four which was: To examine the extent to which the joint CRM process influences marketing effectiveness among commercial banks in Kenya.

### 4.5.1 Descriptive Results on Marketing Effectiveness

#### a) Customer Satisfaction

The items in Table 4.25 were meant to measure the levels of customer satisfaction among commercial banks in Kenya.

**Table 4.25 Descriptive Results for Customer Satisfaction**

| Statement | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Standard Deviation |
|---|---|---|---|---|---|---|---|
| 1. I am happy doing business with my bank | 1.3 | 3.6 | 16.6 | 55.3 | 23.1 | 3.953 | 0.811 |
| 2. I am satisfied with the services I get from my bank | 1.0 | 6.5 | 17.4 | 55.3 | 19.7 | 3.862 | 0.841 |
| 3. I am comfortable with my relationship with the bank | 2.1 | 7.0 | 20.3 | 53.0 | 17.7 | 3.774 | 0.892 |
| 4. My bank always delivers superior services | 2.0 | 7.7 | 34.7 | 38.4 | 16.6 | 3.607 | 0.924 |

n= 385, $\bar{X}$ = 3.801, Figures in %

The results in Table 4.25 reveal a favourable agreement with the four statements with a majority of the respondents agreeing to have experienced satisfaction with the services they received from their banks. A total of 78.4% of the respondents reported that they were happy doing business with their banks, 75.0% agreed that they were satisfied with the services they received from their banks while 70.7% agreed that they were comfortable with their relationship with their banks. With respective means and standard deviations (in parenthesis) of 3.953(0.811), 3.862(0.841), and 3.774(0.892), the findings indicate that customer satisfaction was achieved to a favourable extent. These findings were validated by information collected from management with a majority reporting to have achieved up to 80% customer satisfaction. This had been achieved through deliberate efforts such as: market driven products, product innovations, competitive interest rates, proactive feedback correction, putting in place processes and procedures, special products targeted to customer groups such as women, children and religious groups.

The findings are consistent with those of Mutua (2011); Mwangi (2010) that commercial banks in Kenya had embraced customer satisfaction practices to a great extent. However, there was an indication that some banks did not meet the expectations of the customers as far as quality is concerned with only 55.0% of the respondents agreeing with the statement that their banks always delivered superior quality of services. The findings are supported by Mwangi (2010) that there is a general need to improve service quality in the Kenyan banking sector. Mithas *et al.* (2005); Payne and Flow (2005) reported a positive relationship between CRM and customer satisfaction. The study infers, therefore, that the favourable levels of CRM implementation resulted to the considerable levels of satisfaction.

In addition to the likert scale questions, an open-ended question was posed to the respondents on what they would like their banks to do to increase their levels of satisfaction. The findings revealed that customers expect more frequent and timely communications, effective service delivery, good customer relations, faster services, convenience, fair bank charges and interest rates, loyalty rewards, tailored products and services, reliable systems, confidentiality, less queuing, accessibility of loans and quick solutions to customers' complaints and problems.

**b) Customer Retention**

Customer retention was measured to help establish the extent of marketing effectiveness. The results were as shown in Table 4.26**.**

**Table 4.26 Descriptive Results for Customer Retention**

| Statement | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Standard Deviation |
|---|---|---|---|---|---|---|---|
| 1. Am willing to maintain my relationship with the bank for the next five years. | 2.6 | 7.0 | 18.5 | 45.1 | 26.8 | 3.865 | 0.976 |
| 2. I don't intend to switch from my bank in the near future. | 3.6 | 9.6 | 24.0 | 40.6 | 22.1 | 3.680 | 1.037 |
| 3. The services I get encourage to me continue banking with my bank. | 2.9 | 6.0 | 8.4 | 25.7 | 21.6 | 3.771 | 0.967 |
| 4. My bank gives me value for money. | 3.1 | 8.4 | 25.7 | 45.3 | 17.5 | 3.657 | 0.967 |

n= 384, $\bar{X}$= 3.743, Figures in %

The results in Table 4.26 show that a majority of the respondents were willing to remain with their banks and that most commercial banks in Kenya were making deliberate effort to retain their existing customers. Cumulatively, 71.9% of the respondents agreed that they were willing to maintain their relationship with their banks for the next five years, 62.7% agreed that they were not planning to switch from theirs banks in the near future, 47.3% agreed that the services they receive from their banks encouraged them to continue doing business with their banks, while 63.8% agreed that their banks offered them value for money.

The means had a fairly close range of between 3.657and 3.865 while the standard deviations were between 0.976and 1.037 showing that the respondents were homogenous and that they were willing to stay with their banks for longer. The results suggest that retention rate was significantly high for those banks that implemented CRM and that most banks were committed to customer retention management. The findings disagree with those of Ang and Buttel, (2006) that companies are generally not very advanced in customer retention management and that most companies are not giving retention the attention it deserves.

Asked the reasons why they would switch banks the following were cited by a majority of the respondents: poor customer service, poor service delivery better services from completion, high charges and inaccessibility of credit facilities. This study infers that effort to meet the named customer expectations would improve CRM performance and ultimately marketing effectiveness among commercial banks.

**c) Value of customers**

The study sought to establish whether banks succeeded in maintaining relationships with high value customers.

**Table 4.27 Descriptive Results for Value of Customers**

| Statement | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Standard Deviation |
|---|---|---|---|---|---|---|---|
| 1. I can always open another account with my bank if need be. | 2.1 | 6.8 | 16.2 | 53.4 | 21.5 | 3.853 | 0.905 |
| 2. I can always recommend my bank to my friends and family | 1.3 | 5.5 | 16.7 | 56.5 | 20.1 | 3.885 | 0.832 |
| 3. Generally I am happy with the services I get from the bank. | 0.8 | 6.0 | 17.2 | 57.3 | 18.8 | 3.872 | 0.809 |
| 4. I transact frequently with my bank. | 1.3 | 5.5 | 15.7 | 56.1 | 21.4 | 3.986 | 0.837 |

n= 384, Mean $\bar{X}$= 3.880 Figures in %

The result Table 4.27 show that the items received a relatively high rating with 74.9% of the respondents agreeing with the statement that they could always open another account with their banks; this shows that they were willing to continue doing business with their banks, 76.6% of the respondents agreed that they can always recommend their banks to family and friends; customer referrals is an indicator of a high value customer, 76.1% agreed that they transacted with their banks frequently; the higher the number of transactions the higher the value of the customer while 77.5% agreed that they were happy with the services they received from their banks. The findings indicate that majority of respondent were of value to the bank. This implies that the implementation of CRM contributed positively to the value of customer and consequently to marketing effectiveness.

### 4.5.2 Regression Results for the Joint Effect of CRM on Marketing Effectiveness

Under objective four, regression analysis was done to examine the extent to which the joint CRM process influenced marketing effectiveness of commercial banks in Kenya. It was hypothesised that;

> **$H_{04}$** There is no significant joint relationship between the CRM process and marketing effectiveness.

To test the hypothesis, the following model $Y= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$ was fitted.

The regression results in Table 4.28 show that the joint relationship between the CRM process and marketing effectiveness was significant ($F (3,381) =119.28$, $p < 0.001$). With $R^2 = 0.484$, the model implies that about 48.4% variation in marketing effectiveness is explained by variations in (relationship initiation, relationship maintenance, relationship termination). This is high performance is explained by the fact that relationship management is a continuous process and therefore better results are achieved when the sub-processes are joint. However, the model did not explain 51.6% of the variation, meaning that there are other factors associated with marketing effectiveness which were not fitted in the model. The beta coefficient for CRM initiation in the joint model was insignificant ($\beta = 0.054$, $t =1.204$, $p < 0.001$) indicating that the introduction of relationship maintenance and relationship termination into the model reduces the influence of relationship initiation on marketing effectiveness.

**Table 4.28 Regression Results for Joint CRM Process on Marketing Effectiveness**

**Model Summary**

| Model | R | $R^2$ | Adj. $R^2$ | Std .Error |
|---|---|---|---|---|
| 1 | .696 | 0.484 | 0.480 | 0.512 |

**ANOVA**

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 93.906 | 3 | 31.302 | 119.28 | < 0.001 |
| | Residual | 99.984 | 381 | 0.262 | | |
| | Total | 193.89 | 384 | | | |

**Coefficients a**

| Model | | Unstand. Coefficients | | Stand. Coefficients | | |
|---|---|---|---|---|---|---|
| | | B | Std.Error | Beta | t | Sig |
| 1 | (Constant) | 0.430 | 0.208 | | 2.066 | 0.040 |
| | Initiation | 0.054 | 0.045 | 0.055 | 1.204 | 0.229 |
| | Maintenance | 0.643 | 0.053 | 0.576 | 12.11 | <0.001 |
| | Termination | 0.248 | 0.059 | 0.170 | 4.221 | <0.001 |

a) Predictors(c) Initiation, Maintenance and Termination.

b) Dependent variable – Marketing Effectiveness.

The results imply that if the relationship with customers is well developed and maintained the process of initiating relationship becomes less important. The findings agree with Egan (2011) that the effect of relationship initiation holds only for the first year of the relationship; from the second year, customers' experience with the firm becomes more important. Beta coefficient for relationship maintenance was significant ($\beta = 0.643$, $t = 12.1$, $p < 0.001$), indicating that with one unit increase in relationship maintenance index, marketing effectiveness increases by about 0.643 units.

The Beta coefficient for relationship termination was also significant ($\beta = 0.248$, $t = 4.221$, $p < 0.001$), meaning that for one unit increase in relationship termination index, marketing effectiveness increases by about 0.248 units.

The model equation is therefore,

$$M.E = 0.430 + 0.054X_1 + 0.643X_2 + 0.248X_3$$

Where, M.E = marketing effectiveness, $X_1$ = relationship initiation, $X_2$ is relationship maintenance and $X_3$ = relationship termination.

Since p-value for relationship maintenance and relationship termination were < 0.05, the null hypothesis was rejected and it was concluded that there is a statistically significant joint relationship between the CRM sub-process and marketing effectiveness. The findings indicate that the joint effect of the CRM variables was more significant than the individual effect. This implies that banks need to efficiently manage the three phases of CRM as one continuous process to increase the effectiveness of marketing.

### 4.5.3 Discussions on the Joint Relationship between the CRM Process and Marketing Effectiveness

The findings of this study reveal that there is a statistically significant relationship between the CRM process management and effectiveness of marketing. The findings disagree with those of Yim *et al.* (2004) that progress made in management of customer relationships had not substantially increased customer retention rate. On the other hand, the findings are consistent with those of Soliman (2007); Reinartz *et al*. (2004) that there is a strong positive relationship between CRM process and marketing performance in financial institutions. The study found a more significant effect of CRM on marketing effectiveness than that of Thuo *et al.* (2011) who reported that CRM practices had a moderate explanatory power on marketing effectiveness as it accounted for 33.7% of variability in marketing effectiveness. For this study, CRM accounted for 48% of the variation in marketing effectiveness before the introduction of the moderating effect of relationship commitment. The findings agree with those of Payne and Flow, (2005) that there is a significant relationship between CRM and customer retention. Their study found that significant customer retention had been achieved in 36% of the companies that they studied as a result of embracing CRM. This implies that the more firms adopt and efficiently implemented CRM, the more the customers they are able to retain hence increasing the effectiveness of marketing

On the individual significance of each of independent variables on the dependent variable, the results agree with those of Boulding *et al.* (2005) and Reinartz, *et al*. (2004) that CRM initiatives have differential effects on marketing effectiveness depending on the level at which they are implemented and that the effectiveness of CRM is different at the different stages of the CRM process. Consistent with the earlier studies the current study found the strongest effect of CRM implementation on marketing effectiveness to be at the Maintenance stage with one unit increase in relationship maintenance, resulting to a 0.676 increase in marketing effectiveness. The least effect was at the termination phase.

### 4.6 Moderating effect of Commitment on the Relationship between CRM and Marketing Effectiveness

Under objective five and hypothesis five the study sought to establish the moderating effect of commitment on the relationship between CRM and marketing effectiveness. Each variable was examined individually under hypothesis 5a, 5b and 5c with the moderator as a predictor and also with the interaction term. The moderating effect of commitment on the joint relationship between CRM and marketing effectiveness was also examined under hypothesis 5d.Moderated multiple regression analysis was applied.

**Objective 5:** To examine the moderating effect of relationship commitment on the relationship between CRM process and marketing effectiveness of commercial banks in Kenya

**$H_{05}$:** There is no significant moderating effect of relationship commitment on the relationship between CRM and Marketing Effectiveness.

**Data Standardisation**

To obtain the interaction term, the data was transformed to meet the assumptions of statistical inference and improve interpretability. This transformation introduced multicollinearity which had to be dealt with before running the models. To reduce the multicollinearity to the acceptable levels, data centering was done for each variable in which case, each variable was centered by subtracting its mean from each value; centred X=X- Mean (X) (Aiken and West 1991).

### 4.6.1 Moderating effect of Relationship Commitment on the Relationship between Initiation and Marketing Effectiveness

Under this section, regression analysis was run to establish whether relationship commitment moderated the association between CRM initiation and marketing effectiveness. It was hypothesised that:

**$H_{05a}$:** There is no significant moderating effect of relationship commitment on the relationship between Customer Relationship Initiation and Marketing Effectiveness.

To the test the hypothesis the following models were fitted;

Model1a: $Y = \beta_0 + \beta_1 X_1 + \beta_2 Z + \varepsilon$

Model2a: $Y = \beta_0 + \beta_1 X_1 + \beta_2 Z + \beta_3 X_1 Z + \varepsilon$

**Table 4.29 Results of Moderating effect of Relationship Commitment on the relationship between Customer Relationship Initiation and Marketing Effectiveness**

| Model | R | R Square | Adj. $R^2$ | S. E | R Square Change | F Change | df1 | df2 |
|---|---|---|---|---|---|---|---|---|
| 1a | .750a | 0.562 | 0.56 | 0.47152 | 0.562 | 245.034 | 2 | 382 |
| 2a | .751b | 0.563 | 0.56 | 0.47136 | 0.001 | 1.26 | 1 | 381 |

**Coefficients a**

| Model | Unstand. Coefficients | | | Stand. Coefficients | T | Sig. | Collinearity Statistic | |
|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1a | (Constant) | 3.805 | 0.024 | | 158.322 | < 0.001 | | |
| | Initiation | 0.171 | 0.036 | 0.175 | 4.723 | < 0.001 | 0.835 | 1.198 |
| | Commit. | 0.619 | 0.035 | 0.661 | 17.836 | < 0.001 | 0.835 | 1.198 |
| 2a | (Constant) | 3.813 | 0.025 | | 151.489 | < 0.001 | | |
| | nitiation | 0.162 | 0.037 | 0.166 | 4.381 | < 0.001 | 0.797 | 1.254 |
| | Commit. | 0.616 | 0.035 | 0.658 | 17.697 | < 0.001 | 0.829 | 1.206 |
| | Initiation* Commit. | -0.038 | 0.033 | -0.039 | -1.122 | 0.262 | 0.926 | 1.080 |

a) Predictors(c) CRM initiation, commitment
b) Predictors (c) CRM initiation, commitment, CRM initiation*commitment
Dependent variable – Marketing Effectiveness

Model 1a represents the regression model with the independent variable (relationship initiation) and the moderator (relationship commitment) as a predictor. The model shows that the relationship between initiation and marketing effectiveness with relationship commitment as a predictor was significant ($F (2,382) =245$, $p < 0.001$). With $R^2 = 0.562$, it was noted that the percentage of variation accounted for by the model went up from 19.7% to 56% (see Table 4.10). This implies that the moderator as a predictor explained 36.3% variation in marketing effectiveness. Beta coefficient for relationship commitment as a predictor was significant ($\beta$ =0.619, t =

17.836, $p < 0.001$), meaning that for one unit increase in relationship commitment index marketing effectiveness increases by about 0.619 units. With p-value = 0.00, the results indicate that there is a significant positive relationship between commitment and marketing effectiveness. The findings agree with those of Verhoef and Franses (2002) that there is a highly positive coefficient between commitment and customer satisfaction. The findings are also consistent with an argument held by Kubi and Doku (2010) that commitment is an integral part of successful CRM.

Model 2a represents the regression model with the independent variable, the moderating variable and the interaction term (obtained by multiplying the independent variable with the moderator). The models shows that the interaction effect was not significant ($p = 0.262$) which is greater than 0.001. This means that the interaction term did not add any predictive power to the model. With $p > 0.05$ the study failed to reject the null hypothesis and it was concluded that there is no significant moderating effect of commitment on the relationship between customer relationship initiation and marketing effectiveness.

The findings are consistent with those of Liu and Wu, (2007) that in the initial stages of a buying relationship, customers have less confidence in the products offered by the banks. Hence, customers will generally depend on firm's reputation. The findings are also supported by Aurier and N'Goala (2010) that individuals are reluctant to committing themselves to relationships unless they have confidence in the service provider's ability to constantly meet their expectations in the future and avoid any behaviour that could be detrimental to them. This implies therefore that the interaction effect of commitment at the initiation stage does not add much value to the relationship.

### 4.6.2 The moderating effect of Relationship Commitment on the relationship between Customer Relationship Maintenance and Marketing Effectiveness

This section covers $\mathbf{H_{05b}}$ which stated that:

> There is no significant moderating effect of commitment on the relationship between Customer Relationship maintenance and marketing effectiveness.

To test the relationship, the following models were fitted

Model 1b: $Y = \beta_0 + \beta_1 X_2 + \beta_2 Z_1 + \varepsilon$

Model 2b: $Y = \beta_0 + \beta_1 X_2 + \beta_{2.} Z_1 + \beta_3 X_2 Z_1 + \varepsilon$

Model 1b represents the regression model with the independent variable (relationship maintenance) and the moderator (Relationship commitment) as a predictor. As shown in Table 4.30, the model shows that the association between relationship maintenance and marketing effectiveness with relationship commitment as a predictor was significant ($F(2,382) = 284$, $p < 0.001$). With $R^2 = 0.599$, the results indicate that the percentage of variation accounted for by the model increased from 45.7% to 59.9% (see Table 4.19). This implies therefore that the moderator as a predictor explained 14.2% variation in marketing effectiveness.

The model equation for CRM maintenance and commitment as a predictor is therefore,

$ME = 3.805 + 0.375X_2 + 0.475Z$

Where, ME is marketing effectiveness, RM is relationship maintenance and Z is relationship commitment.

Beta coefficient for relationship commitment as a predictor was significant ($\beta = 0.507$, $t = 11.61p < 0.001$), meaning that for one unit increase in relationship commitment index, marketing effectiveness increases by about 0.507 units. The findings confirm that commitment is a significant variable in the relationship between CRM and marketing effectiveness. The findings agree with (Buttel, 2010) that when mutual commitment and trust exists between partners, both partners are motivated to make investment in the relationship.

**Table 4.30 Moderating effect of Commitment on the relationship between Customer Relationship Maintenance and Marketing Effectiveness**

| | | **Model Summary** | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Model | R | $R^2$ | Adjd.$R^2$ | S. E | $R^2$ Change | F Change | df1 | df2 | Sig. F Change |
| 1b | .774a | 0.599 | 0.596 | 0.451 | 0.599 | 284.8 | 2 | 382 | < 0.001 |
| 2b | .774b | 0.599 | 0.595 | 0.452 | 0 | 0.015 | 1 | 381 | 0.903 |

**ANOVA**

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1b | Regression | 116.052 | 2 | 58.026 | 284.77 | < 0.001a |
| | Residual | 77.838 | 382 | 0.204 | | |
| | Total | 193.89 | 384 | | | |
| 2b | Regression | 116.055 | 3 | 38.685 | 189.36 | < 0.001b |
| | Residual | 77.835 | 381 | 0.204 | | |
| | Total | 193.89 | 384 | | | |

| | | **Coefficients** | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Model | | Unstand. Coefficients | | Stand. Coefficients | t | Sig. | Collinearity Statistics | |
| | | B | S E | Beta | | | Tolerance | VIF |
| 1b | (Constant) | | | | 165.38 | < 0.001 | | |
| | | 3.805 | 0.023 | | | | | |
| | Maintenance | | | | 7.691 | < 0.001 | 0.551 | 1.816 |
| | | 0.375 | 0.049 | 0.336 | | | | |
| | Commitment | | | | 11.61 | < 0.001 | 0.551 | 1.816 |
| | | 0.475 | 0.041 | 0.507 | | | | |
| 2b | (Constant) | | | | 145.32 | < 0.001 | | |
| | | 3.806 | 0.026 | | | | | |
| | Maintenance | 0.368 | 0.336 | 7.682 | | < 0.001 | 0.55 | 1.817 |
| | | 0.049 | | | | | | |
| | Commitment | | | 0.506 | 11.367 | < 0.001 | 0.531 | 1.882 |
| | | 0.474 | 0.042 | | | | | |
| | Maintenanc*Commitment | -0.005 | 0.039 | -0.004 | -0.122 | 0.903 | 0.949 | 1.054 |

a) Predictors(c) CRM maintenance, commitment
b) Predictors (c) CRM maintenance, commitment, CRM maintenance*commitment
Dependent variable – Marketing Effectiveness

Model 2b represents the regression model with the independent variable, the moderating variable and the interaction term (obtained by multiplying maintenance with commitment) the model indicates that the interaction effect of commitment on the relationship between CRM maintenance and marketing effectiveness was not significant ($p = 0.903$) which is greater than 0.001.

The model equation for the moderating effect is:

$$M.E = 3.806 + 0.368X_2 + 0.474Z - 0.005\, X_2 * Z$$

Where, ME is marketing effectiveness, $X_2$ is relationship maintenance, Z is relationship commitment.

This implies that the interaction term did not add any predictive power to the model. With $p > 0.05$, the study failed to reject the null hypothesis and it was concluded that there is no significant moderating effect of relationship commitment on the relationship between customer relationship maintenance and marketing effectiveness.

### 4.6.3 Moderating effect of Commitment on the relationship between Customer Relationship Termination and Marketing Effectiveness

This section covers $H_{05c}$ which states that there is no significant moderating effect of relationship commitment on the relationship between Customer Relationship Termination and Marketing effectiveness.

To test the hypothesis, the following models were fitted;

Model 1c: $Y = \beta_0 + \beta_1 X_3 + \beta_2 Z + \varepsilon$;

Model 2c: $Y = \beta_0 + \beta_1 X_3 + \beta_2 Z + \beta_3 X_3 Z + \varepsilon$.

Model 1c in Table 4.31 represents the regression model with the independent variable (relationship termination) and the moderator (relationship commitment) as a predictor; the moderator as a predictor was significant in the model. The relationship between termination and marketing effectiveness with relationship commitment as a predictor was significant ($F (2,382) = 241.9$, $p < 0.001$). With $R^2 = 0.562$, the results indicate that the percentage of variation accounted for by the model went up from 17.3% to 55.9% (see Table 4.24).This means that the moderator as a predictor explained 38.6% variation in marketing effectiveness. Beta coefficient for relationship commitment as a predictor was significant ($\beta = 0.628$, $t = 18.263$, $p < 0.001$), meaning that for one unit increase in relationship commitment index, marketing effectiveness increases by about 0.628 units. The model equation is therefore:

$$ME = 3.805 + 0.235X_3 + 0.628Z$$

Where, ME is marketing effectiveness, RT is Relationship Termination, and Z is Relationship Commitment

The findings agree with Verhoef, (2003) that relationship commitment positively affects customer loyalty. The more committed customers are, the less the need to terminate customer and higher the intention to retain their relationship with the firm.

**Table 4.31 Moderating effect of Commitment on the relationship between Customer Relationship Termination and Marketing Effectiveness**

**Model Summary**

| Model | R | $R^2$ | Adjd.$R^2$ | S. E | $R^2$ Change | F Change | df1 | df2 | Sig. F Change |
|---|---|---|---|---|---|---|---|---|---|
| 1c | .747a | 0.559 | 0.556 | 0.4733 | 0.559 | 241.9 | 2 | 382 | < 0.001 |
| 2c | .750b | 0.562 | 0.559 | 0.4721 | 0.003 | 2.919 | 1 | 381 | 0.088 |

**ANOVA**

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1c | Regression | 108.334 | 2 | 54.167 | 241.85 | < 0.001 |
| | Residual | 85.556 | 382 | 0.224 | | |
| | Total | 193.89 | 384 | | | |
| 2c | Regression | 108.985 | 3 | 36.328 | 163.02 | < 0.001 |
| | Residual | 84.905 | 381 | 0.223 | | |
| | Total | 193.89 | 384 | | | |

**Cont…** **Coefficients**

| Model | | UnstandCoefficients | | Stand. Coefficients | T | Sig. | Co linearity Statistics | | Model |
|---|---|---|---|---|---|---|---|---|---|
| | | B | S.E | Beta | | | Tolerance | VIF | |
| 1c | (Constant) | 3.805 | 0.024 | | 157.74 | < 0.001 | | | |
| | Termination | 0.235 | 0.053 | 0.162 | 4.4 | < 0.001 | 0.856 | 1.169 | |
| | Commitment | 0.628 | 0.034 | 0.671 | 18.263 | < 0.001 | 0.856 | 1.169 | |
| 2c | (Constant) | 3.818 | 0.025 | | 151.36 | < 0.001 | | | |
| | Termination | 0.231 | 0.053 | 0.158 | 4.315 | < 0.001 | 0.853 | 1.172 | |
| | commitment | 0.619 | 0.035 | 0.662 | 17.87 | < 0.001 | 0.838 | 1.193 | |
| | Termination*Commitment | -0.092 | 0.054 | -0.059 | -1.709 | 0.088 | 0.966 | 1.035 | |

a) Predictors(c) CRM Termination, Commitment
b) Predictors (c) CRM Termination, Commitment, CRM Termination*Commitment
Dependent variable – Marketing Effectiveness

Model 2c represents the regression model with the independent variable, the moderating variable and the interaction term (obtained by multiplying commitment with termination). The model indicated that the interaction effect was not significant ($p = 0.088$) which is greater than 0.001.

The equation model is therefore:

$$ME = 3.818+0.231X_3+0.619Z - 0.092RT*Z$$

Where, ME= marketing effectiveness, $X_3$ = relationship termination and Z = relationship commitment.

The results indicate that the interaction term did not add any predictive power to the model. With $p > 0.05$, the study failed to reject the null hypothesis and it was concluded that there is no significant moderating effect of commitment on the relationship between customer relationship termination and marketing effectiveness.

### 4.6.4 Moderating effect of Relationship Commitment on the Joint Relationship between the CRM Sub - Processes and Marketing Effectiveness

**$H_{05d}$:** There is no significant moderating effect of relationship commitment on the relationship between the joint CRM process and Marketing effectiveness. To the test the hypothesis, the following model was fitted

Model 1d: $Y = \beta_0 + \beta_i X_i + \beta_z Z + \varepsilon$, (i=1, 2, 3)

Model 2d: $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_z Z + \beta_{iz} X_i Z + \varepsilon$, (i=1, 2, 3)

The regression results were as shown in Table 4.32.

Model 1d represents the regression model with the independent variables (relationship initiation, maintenance, and termination) and the moderator (relationship commitment) as a predictor. As show in Table 4.32, the moderator as a predictor was significant in the model. This shows that the join relationship between initiation and marketing effectiveness with relationship commitment as a predictor was significant ($F (4,380) = 148.7$, $p < 0.001$). With $R^2 = 0.61$, the results indicate that the percentage of variation accounted for by the model increased from 48.4% to 61.0% (see Table 4. 28).This means that the moderator as a predictor in the joint model explained 12.6% variation in marketing effectiveness. Beta coefficient for relationship commitment as a predictor was significant ($\beta = 0.453$, $t = 11.071$, $p < 0.001$), meaning that for one unit increase in relationship commitment index, marketing effectiveness increases by about 0.453 units. The model equation is:

$$M.E = 3.805 + 0.05X_1 + 0.311\, X_2 + 0.154\, X_3 + 0.453Z$$

Where ME = marketing effectiveness, $X_1$ = relationship initiation, $X_2$ = relationship maintenance, $X_3$ = relationship termination and Z = relationship commitment.

## Table 4.32: Moderating Effect of Commitment on the Relationship between CRM Process and Marketing Effectiveness

| | | | | **Model Summary** | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Model | R | $R^2$ | Adjd.$R^2$ | S. E | $R^2$ Change | F Change | df1 | df2 | Sig. F Change |
| 1d | .781a | 0.61 | 0.606 | 0.446 | 0.61 | 148.7 | 4 | 380 | < 0.001 |
| 2d | .788b | 0.621 | 0.614 | 0.4416 | 0.011 | 3.539 | 3 | 377 | 0.015 |
| | | | **ANOVA c** | | | | | | |
| Model | | Sum of Squares | df | Mean Square | F | Sig. | | | |
| 1d | Regression | 118.292 | 4 | 29.573 | 148.65 | < 0.001 | | | |
| | Residual | 75.598 | 380 | 0.199 | | | | | |
| | Total | 193.89 | 384 | | | | | | |
| 2d | Regression | 120.363 | 7 | 17.195 | 88.163 | < 0.001 | | | |
| | Residual | 73.527 | 377 | 0.195 | | | | | |
| | Total | 193.89 | 384 | | | | | | |
| | | | | **Coefficientsa** | | | | | |
| Model | | Unstand. Coefficients | | Stand.coefficients | t | Sig. | Collinearity Statistics | | Model |
| | | B | SE | Beta | | | Tolerance | VIF | |
| 1d | (Constant) | 3.805 | 0.023 | | 167.37 | < 0.001 | | | |
| | Initiation | 0.05 | 0.039 | 0.052 | 1.301 | 0.194 | 0.65 | 1.539 | |
| | Maintenance | 0.311 | 0.055 | 0.279 | 5.646 | < 0.001 | 0.422 | 2.372 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Termination | 0.154 | 0.052 | 0.106 | 2.975 | 0.003 | 0.812 | 1.232 |
| | commitment | 0.453 | 0.041 | 0.484 | 11.071 | < 0.001 | 0.536 | 1.866 |
| 2d | (Constant) | 3.805 | 0.026 | | 147.21 | < 0.001 | | |
| | Initiation | 0.021 | 0.04 | 0.021 | 0.524 | 0.601 | 0.605 | 1.653 |
| | Maintenance | 0.343 | 0.056 | 0.307 | 6.175 | < 0.001 | 0.406 | 2.464 |
| | Termination | 0.126 | 0.052 | 0.087 | 2.415 | 0.016 | 0.782 | 1.279 |
| | Commitment | 0.446 | 0.042 | 0.476 | 10.69 | < 0.001 | 0.507 | 1.974 |
| | Initiation* Commitment | -0.078 | 0.047 | -0.082 | -1.645 | 0.101 | 0.406 | 2.465 |
| | Maintenance*Commitment | 0.121 | 0.059 | 0.104 | 2.055 | 0.041 | 0.391 | 2.556 |
| | Termination*Commitment | -0.154 | 0.06 | -0.098 | -2.55 | 0.011 | 0.676 | 1.479 |

a) Predictors(c) CRM Initiation, Maintenance, Termination, Commitment

b) Predictors(c) CRM Initiation*Commitment, CRM Maintenance*Commitment, CRM Termination*Commitment

Dependent variable – Marketing Effectiveness\

Model 2d represents the regression model with the independent variable, the moderating variable and the interaction term (obtained by multiplying commitment with initiation, maintenance, termination). As shown in Table 4.32, the interaction term in the joint model, for relationship between CRM initiation and marketing effectiveness was insignificant ($p = 0.101$) meaning that, in the joint model, relationship initiation is not significant in predicting the model goodness of fit. The findings are supported by Altman and Tailor's (1973) Theory of Social Penetration that individuals make only a small part of themselves accessible at the initial stages of the relationship and increase the accessibility to more personal issues as the relationship grows. This explains why relationship commitment did not moderate the relationship between CRM and marketing effectiveness at the initiation stage.

The moderating effect on the joint relationship between maintenance and marketing effectiveness was significant ($p = 0.041$) and that of the joint relationship between termination and marketing effectiveness was also significant ($p = 0.011$). This indicates that there is a significant interaction between CRM, Commitment and Marketing effectiveness at both the maintenance and termination stage implying therefore that implementation of the CRM process has a higher influence on marketing effectiveness if both the banks and customers are committed to the relationship. If commitment does not exist, it is likely that the CRM outcome is going to be below expectations. The interaction term in the joint model improved the variation accounted for by the model to 61.4% meaning that overall, the moderator increased the model goodness of fit from 48% to 61.4 %.

The equation model for Model 2d is:

$$ME = 3.805 + 0.02\ X_1 + 0.343\ X_2 + 0.126\ X_3 + 0.446Z - 0.078\ X_1{*}Z + 0.121\ X_2{*}Z - 0.154\ X_3{*}Z$$

Where, ME= marketing effectiveness, $X_1$= relationship initiation, $X_2$ = relationship maintenance, $X_3$ = relationship termination and Z = relationship commitment.

With $p < 0.05$ for maintenance and termination, the null hypothesis was rejected and the study concluded that there is a statistically significant moderating effect of commitment on the joint relationship between CRM and marketing effectiveness.

#### 4.6.5 Discussions on the Moderating Effect of Commitment on the Relationship between CRM Process and Marketing Effectiveness

As shown in Table 4.2 the moderator increased the model goodness of fit from 48% to 61.4%. The findings confirm that relationship commitment moderates the relationship between CRM and marketing effectiveness in the banking sector. The findings of this study are consistent with those of Verhoef (2003) that commitment is a significant variable in customer relationships and that it affects both relationship maintenance and relationship development. The findings also agree with those of Aurier and N'Gloara (2010) that relationship commitment has a positive direct influence on relationship maintenance with significant effect on relationship duration, as it enhances customer retention and prevents customers from developing multiple relationships. The findings are supported by an argument held by Morgan and Hunt (1994) that commitment and trust in relationships produce outcomes that promote efficiency, effectiveness and productivity of relationships.

Relationship Commitment is therefore is a key factor in relationship maintenance important in establishing long-term perspective of customer relationship management. Commercial banks must carefully monitor their customers' commitment and develop specific programs which improve quality of the service relationship. Committed customers are less attractive to competition.

From the firm's point of view, the study asserts the importance of managerial commitment as noted by Kubi and Doku, (2010) that managerial commitment is an integral part of a successful CRM and that the foundation of successful CRM lies in the orientation of managerial mindset to a state of commitment that values customers as the central nervous system of the organization's survival. Where Management is committed to CRM, Marketing effectiveness is bound to be enhanced. The findings are consistent with Arnnet and Badrinarayanan (2005) who argue that relationship commitment is at the core of all successful working relationships. Commitment is an essential ingredient of successful, long-term customer relationship, as it provides a solid base from which additional characteristics important to the development of the relationships can be built upon.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents the summary of the study as guided by the specific objectives, conclusion, recommendations and suggestions for further research. Five objectives were set for the study out of which five hypotheses were formulated.

## 5.2 Summary

The main objective of the study was to examine the relationship between the CRM process and marketing effectiveness among commercial banks in Kenya. Specifically, the study examined the relationship between customer relationship initiation, relationship maintenance, relationship termination and marketing effectiveness.

### 5.2.1 Relationship Initiation and Marketing Effectiveness

The first objective of the research was to examine the relationship between customer relationship initiation and marketing effectiveness. From this objective, it was hypothesised that there is no significant relationship between customer relationship initiation and marketing effectiveness. The results of this study showed a positive statistically significant relationship as CRM initiation explained 20% variation in marketing effectiveness. The larger the customer base, the more effective marketing becomes. It is notable that the relationship at this stage was not as strong as expected. The researcher attributes this to the moderate implementation of CRM at the initiation stage. Banks can enhance relationship initiation by using more targeted communications that will help identify, attract and recruit customers that have more profit potential.

### 5.2.2 Relationship Maintenance and Marketing Effectiveness

The second objective was to examine the relationship between customer relationship maintenance and marketing effectiveness. It was hypothesized that there is no significant relationship between customer relationship maintenance and marketing effectiveness. The results confirmed that there is a positive statistically significant relationship, as relationship maintenance accounted for 46% variation in marketing effectiveness. The strong effect at this phase is attributed to the fact that CRM implementation by banks was found to be more elaborate at this phase than in the other phases. Most banks had systems and procedures for maintaining and developing customer relationships.

### 5.2.3 Relationship Termination and Marketing Effectiveness

The third objective was to examine the relationship between customer relationship termination and marketing effectiveness. It was hypothesized that; there is no significant relationship between CRM termination and marketing effectiveness. The results confirmed that there is a positive statistically significant relationship, as CRM termination accounted for 17% variation in marketing effectiveness. A further analysis on discontinuing relationship with non-profitable customers revealed that only 12.1% of the terminated accounts had been effected by the banks while 81.1% had been terminated by the customers themselves. The interviews carried out with the managers confirmed that most banks were reluctant in terminating relationships with low-value customers. The study therefore attributes the relatively low influence of CRM on marketing effectiveness at the termination phase to this inefficient implementation of CRM processes.

### 5.2.4 The Joint effect of Relationship Initiation, Maintenance, Termination on Marketing Effectiveness

The fourth objective was meant to examine the extent to which the joint CRM process influences marketing effectiveness. It was hypothesized that there is no significant joint relationship between CRM and marketing effectiveness. The results confirmed that there is a positive statistically significant relationship, with management of the CRM accounting for 48% variation in marketing effectiveness. It was noted that the joint effect of CRM on marketing effectiveness was greater than the individual effect though it was not as strong as expected. These findings are supported by an argument held by Chen and Popovich (2003) that CRM is an integrated approach to managing customer relationships that focuses on people, processes and technology with the aim of developing and retaining the relationships. Chen and Popovich (2003) hold that managing a successful CRM implementation, requires an integrated and balanced approach to technology, processes and people.

### 5.2.5 The Moderating Effect of Relationship Commitment on the Relationship between CRM Marketing Effectiveness

The fifth objective of the study was to establish the moderating effect of relationship commitment on the relationship between CRM and marketing effectiveness. This objective was tested under four hypothesis specified as follows:

> **$H_{05a}$**: There is no significant moderating effect of relationship commitment on the relationship between customer relationship initiation and marketing effectiveness.

The results revealed that though relationship commitment as predictor showed a strong positive statistically significant relationship with marketing effectiveness, the interaction effect was insignificant. This indicates that the introduction of relationship commitment to regression model at the initiation stage yielded insignificant results.

> **$H_{05b}$**: There is no significant moderating effect of commitment on the relationship between customer relationship maintenance and marketing effectiveness.

The results confirmed that the interaction effect was also insignificant, implying that commitment did not moderate the relationship between customer relationship maintenance and relationship maintenance. It was however observed that commitment as a predictor yielded significant results.

> **$H_{05c}$**: There is no significant moderating effect of commitment on the relationship between customer relationship termination and marketing effectiveness.

The results confirmed that relationship commitment did not moderate the relationship between CRM termination and marketing effectiveness though commitment as a predictor was significant.

> **$H_{05d}$**: There is no moderating effect of commitment on the joint relationship between CRM and marketing effectiveness.

The results revealed that commitment moderated the relationship in the joint model.

The moderating effect on the joint relationship between maintenance and marketing effectiveness was significant ($p = 0.041$) and that of the joint relationship between termination and marketing effectiveness was also significant ($p = 0.011$). This indicates that there is a significant interaction between CRM, commitment and marketing effectiveness. Verhoef (2003) recommends that managers should strive to affect customer retention through creating committed customers. However the interaction was insignificant at the initiation stage.

## 5.3 Conclusions

To remain competitive in today's market, banks must strive to establish strong links with customers. The competitive advantage of CRM lies in learning to win, keep and grow customers better and more systematically than the competitors. Customers must be seen as an integral part of the business, and their needs must be met uniquely to achieve valuable customers, customer satisfaction and customer retention. This study confirmed a wide use of CRM among commercial bank in Kenyan, thus supporting the findings by Muro (2011); Mutua (2011) that commercial banks in Kenya had adopted CRM to a fairly large extent.

The study also confirmed the reviewed literature that there is a positive statistically significant relationship between the CRM process and marketing effectiveness and that this effect is differentiated. To this end, the study concludes that the degree to which a bank deploys formalized customer relationship initiation, relationship maintenance and relationship termination processes, has a positive and significant effect on marketing effectiveness. Each phase of the CRM process was found to have differentiated effect on marketing effectiveness. The greatest impact was found to be at the maintenance phase followed by initiation while relationship termination was found to have the least effect.

The study also concludes that customer relationship management helps establish, build and maintain relationships with high value customers, increase customer satisfaction and enhance customer retention rate. Commercial banks in Kenya can increase their marketing effectiveness by initiating relationships with the right customers, maintaining relationships with customers who are profitable, have potential for being profitable and those important for strategic purposes as well terminating relationships with non-profitable customer.

Based on the research findings, it is evident that commercial banks in Kenya are reluctant in terminating relationships with low-value customers and that a majority of the customers would not encourage their banks to discontinue these relationships. This study found a statistically significant relationship between customer relationship termination and marketing effectiveness. The study concludes therefore that the more efficiently banks implement and manage relationship termination with low value customers, the more effective marketing becomes.

However, even though the results of the study were positive, it is evident that the relationship between CRM and marketing effectiveness was not as strong as expected. The study attributed this to the fact that some of the CRM processes, such first time encounter with customer, key customer focus and management of non-profitable customers were not very efficiently managed in most of the banks. The study concludes therefore, that the inefficient management of the named key processes resulted to CRM performance that was below expectations. The study also concludes that more efficient management of the CRM processes would yield better results in terms of marketing effectiveness.

Relationship Commitment was found to have a significant moderating effect on the relation between CRM and marketing effectiveness. This study concludes, therefore, that both managerial and customer commitment are key to successful CRM and marketing effectiveness in general. Customer commitment influences their loyalty to the bank, while Managerial commitment enhances customer relationship management through resource allocation, putting in place policies and structures to help build customer relationships.

This study contributes to the existing body of knowledge on CRM by providing additional empirical evidence of the relationship between CRM process and marketing effectiveness. The study confirms that there is a positive statistically significant relationship between management of the CRM process and marketing effectiveness. The study also demonstrates that relationship commitment is a key moderator of the association between the CRM process and marketing effectiveness.

The findings of this study show the following managerial implications to commercial banks in Kenya: First he study provides suggestions on how commercial banks in Kenya can improve CRM implementation so as to enhance its performance and ultimately enhance marketing effectiveness. Secondly this study shows a systematic outline of activities that take place in each phase of the CRM process. Commercial banks in Kenya could use the findings of this study to identify the key CRM Processes for implementation. Thirdly, the study identifies the need to improve CRM implementation for better results especially at the termination stage to enhance CRM performance. Finally, studies done on CRM in the Kenyan banking sector have not considered the process approach to CRM; therefore this study makes useful contribution to the advancement of knowledge on CRM processes in Kenya and more specifically among commercial banks which suffers an acute shortage.

**5.4 Recommendations**

Based on the study findings that process management has a positive statically significant relationship with marketing effectiveness, the study recommends that commercial banks should put in place a set of deliberate and proactive processes, policies and structures for initiating customer relationships, maintaining relationships with valuable customers and terminating unprofitable customer relationships. Banks should continually improve existing processes as customers' needs change and also in line with changes in technology. These processes help standardise services, increase service quality which in turn increases customer satisfaction and customer retention. The study further recommends proportional allocation of the resources to the processes that promise higher returns on investment to enhance CRM performance.

The study confirmed that if well implemented, CRM could yield the expected results such as customer satisfaction, high-value customers and customer retention. Given that the analysis on the extent of implementation of the CRM process revealed that some sub-processes such as: focusing on key customers, first time encounter and relationship termination were inefficiently managed, it is recommended that marketing and customer care managers give more attention to the key customers. Banks should make more deliberate efforts in identifying and understanding the unique needs of their key customers and in meeting those needs satisfactorily. Mwangi (2010) argues that using customer knowledge, banks are better able to identify valuable customers and further learn about their preferences and characteristics. It is further recommended that banks need to put in place systems, structures and policies that are customer friendly especially during the first encounter so as to create a lasting positive first time impression that helps attract and recruit new customers.

The study also recommends regular assessment of customers' value by the bank management, in order to identify the low-value customers for possible dismissal and give the value-adding customers a fair share of attention. The study further recommends that bank Management should do selective recruitment of customers to ensure that they initiate relationships with value-adding customers whose life-time value exceeds the cost of acquisition. This study further recommends that the marketing managers use targeted marketing communications and channels with regard to their suitability to the targeted customers so as to enhance the recruitment process.

Given that the finding of the study confirmed that commitment as predictor had a strong positive relationship with marketing effectiveness, the study recommends that bank management should demonstrate more commitment to customer relationship management implementation in terms of policies, culture, structures and resource allocation (both human and financial). Bank management should direct more attention towards creating committed customers so as to reduce customer churning. Marketing managers should strive to affect customer retention through creating committed customers, as committed customers are less vulnerable to competition due to the high termination cost which makes them less attractive to competitors.

Considering that the CRM outcome from the process approach as seen in this study was notas strong as expected, it is evident that processes alone are not sufficient to yield satisfactory levels of CRM outcome. It is therefore recommended that banks should adopt an integrated approach to CRM implementation. This integrated approach should pay attention to other dimensions of CRM such as technology, CRM as a management philosophy, CRM as a business strategy and CRM as people oriented.

**5.5 Areas for Further Research**

Existing literature has differed on whether it is more effective to terminate relationships with non-profitable customers or to endeavour to make them more profitable by meeting their needs Oztaysi *et al.,* (2011); Smith and Dikoli, (1995). From this study, it is evident that most banks were reluctant in terminating relationships with these low-value customers and that most customers do not appreciate relationship termination by the bank. Further research could be done in this area to establish which of the two approaches is more profitable for firms.

Chen and Popovich (2003) argue that managing successful CRM implementation requires an integrated and balanced approach to technology, processes and people. Further research could be carried out on the integrated approach to CRM implementation to confirm if it actually yields better results than a one sided approach to CRM. The inclusion of other variables could provide additional insight on the relationship between CRM and marketing effectiveness.

Scholars have argued that CRM performs better in some industries than others (Yao & Khong (2011). This study was based on a single industry setting and the findings might not reflect other sectors. Further research could be carried out in other industries to see how the findings compare.

The current study focused on customer satisfaction, customer retention and value of customers as measures of marketing effectiveness. Further research could be carried out using other measures of marketing effectiveness such as market share, sales growth and profitability to find out if CRM performs better in some dimensions than others.

CRM being a social phenomenon continues to evolve with changing customer needs and technological innovations. The current study employed cross sectional survey method. Further research could be carried out using a longitudinal study to expand the existing body of knowledge on CRM.

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# APPENDICES

## Appendix 1: Customer Questionnaire

I am a PhD candidate at Jomo Kenyatta University of Agriculture and Technology pursuing a PhD in Business Administration. As part of the requirements for the award of the degree, am carrying out a research on the "***Effect of Customer Relationship Management (CRM) Process on Marketing Effectiveness among Commercial Banks in Kenya".*** You have been selected to participate in this study by providing information relating to your bank. Kindly feel free to respond to the questionnaire. Please note that the information you provide is strictly for academic purposes and will be treated with utmost confidentiality. Thank you for your cooperation.

***Section A*: *General Information***

***Kindly tick and/or explain your answer where necessary.***

1. Name (Optional) ____________________________________________________

2. Sex Male [ ] Female [ ]

3. Marital status Single [ ] Married [ ] Separated [ ] Divorced [ ]

4. What is your highest level of education? ____________________________________

5. What is your main source of income: Employment ( ) Self ( )

6. How did you learn about your bank?

   a) Advertisement ( )
   b) Through a friend ( )
   c) Through another customer ( )
   d) Others please specify ………………………………………………

7. How many years have you been with your bank? __________________________

8. Have you ever switched banks? Yes ( ) No ( )

If yes, how many times? -------------------------------------------------------------------

Why did you switch from you bank?..................................................................

9. Bank details

| Account Type | Bank Name | Year of opening | Account status (active/inactive) | Date terminated (if applicable) |
|---|---|---|---|---|
| Savings | | | | |
| Current | | | | |
| Fixed | | | | |
| Others | | | | |

10. (b) If you have a terminated account, was is it; by self ( ) or by bank ( )

11. Which of your accounts is most active? -------------------------------------------------

## *Section B: Customer Relationship Management Process.*

Please use the scaling below to rate you bank on the listed issues; tick your preferred response. Give only one answer for the for each Likert Scale question.

## *Use the bank with your most active account for your responses*

**Strongly Agree (S.A), Agree (A), Neutral (N), Disagree (D), Strongly-Disagree (S.D)**

| | RELATIONSHIP INTIATION | S.D | D | N | A | S.A |
|---|---|---|---|---|---|---|
| 1 | My bank advertises its products and services to enhance the search for new potential customers. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 2 | My bank has an efficient system of recruiting new customers. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 3 | My bank uses sales people and other channels to e right the right potential customers. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 4 | My bank has an effective communication system that helps attract new customers. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 5 | In my opinion, my bank exploits its potential for customer acquisition to a great extent. | [ ] | [ ] | [ ] | [ ] | [ ] |

State two ways you would like the bank to treat you on your first encounter______________________?

**RELATIONSHIP MAINTENANCE**

| | Knowledge Management | S.D | D | N | A | S.A |
|---|---|---|---|---|---|---|
| 1 | My bank uses multiple communication channels to ensure effectiveness and to obtain customer feedback. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 2 | My bank keeps me updated on new product development. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 3 | My bank has an interactive two way communication with the customers. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 4 | My bank always avails sufficient and relevant information to the customers. | [ ] | [ ] | [ ] | [ ] | [ ] |

| | Customer Development | SD | D | N | A | SA |
|---|---|---|---|---|---|---|
| 1. | My bank offers me alternative methods of banking to increase my transactions e.g. M- banking, Agency | [ ] | [ ] | [ ] | [ ] | [ ] |
| 2 | My bank offers me opportunity to benefit from its other products and services e.g. mortgages. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 3 | My bank offers me discounts and other incentives while buying their other services e.g. discounted top up loans. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 4 | My bank offers me a wide variety of financial products to choose from. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 5 | My bank encourages me to transact with them more often | [ ] | [ ] | [ ] | [ ] | [ ] |
| | **Focusing on Key Customers** | **SD** | **D** | **N** | **A** | **SA** |
| I | My bank often sends me mails to promote their financial products and services. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 2 | My bank satisfies majority of my banking needs. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 3 | My bank offers me customized incentives to increase my business with them e.g. direct communications. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 4 | My bank has special charges and services which are fair to its key customers. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 5 | Spending more time and resources on high value customers has helped my bank retain and satisfy them. | [ ] | [ ] | [ ] | [ ] | [ ] |

State two privileges you would expect from your bank as a key customer...............................................

| | Creating Customer Value | S.D | D | N | A | S.A |
|---|---|---|---|---|---|---|
| 1 | My bank makes deliberate effort to offer convenience of service provision to its customers e.g. ATMs, Agents. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 2 | My bank offers me value added services e.g. M- Banking paying of utility bills-electricity, water. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 3 | My bank makes deliberate effort to offer value to its customers e.g. M-Pesa transactions. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 4 | My bank offers me better bank charges and interest rates than other banks. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 5 | My bank gives me high quality services. | [ ] | [ ] | [ ] | [ ] | [ ] |

6 What are your expectations on value of service given by your bank? ________

| | Complaints Handling | SD | D | N | A | SA |
|---|---|---|---|---|---|---|
| 1 | My bank has an effective complaints handling procedure. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 2 | My bank has an effective customer feedback collection procedure. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 3 | My bank responds swiftly to customer complaints. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 4 | My bank listens to it's the customers to identify with their problems. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 5 | How would you like your bank to deal with your complaints? ______________________ | | | | | |

**RELATIONSHIP TERMINATION**

| | Determining Customer Value | S.D | D | N | A | S.A |
|---|---|---|---|---|---|---|
| 1 | I am willing to open another account with my bank if need be. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 2 | The number of transactions I do with my bank are significantly high. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 3 | I can always recommend my friends to join my bank. | [ ] | [ ] | [ ] | [ ] | [ ] |
| | **Determining non-profitable customers** | | | | | |
| 1 | | [ ] | [ ] | [ ] | [ ] | [ ] |

| | | S.D | D | N | A | S.A |
|---|---|---|---|---|---|---|
| | A good amount of my income goes through my bank account. | | | | | |
| 2 | I don’t intend to switch from my bank any time soon. | [ ] | [ ] | [ ] | [ ] | [ ] |
| | 3.Ifrequently withdraw and deposit money my account | [ ] | [ ] | [ ] | [ ] | [ ] |

| | **Discontinuing low value customers** | **S.D** | **D** | **N** | **A** | **S.A** |
|---|---|---|---|---|---|---|
| 1 | My bank actively discontinues relationships with low value customers. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 2 | My bank has an effective system of identifying low- value customers. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 3 | My bank offers products that do not meet my expectations. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 4 | I would encourage my bank to discontinue relationships with low value customers. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 5 | The status of my account denies me access to some of the services offered by my bank. | [ ] | [ ] | [ ] | [ ] | [ ] |

| | Commitment | S.D | D | N | A | S.A |
|---|---|---|---|---|---|---|
| 1 | My bank is very committed to the relationship it has with its customers. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 2 | My bank makes deliberate effort to maintain relationship with its customers. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 3 | My bank endeavours to keep all the promises made to its customers. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 4 | My bank discloses all the information I need to make my banking decisions. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 5 | My bank has customer friendly values | [ ] | [ ] | [ ] | [ ] | [ ] |
| | State two promises that your bank made and failed to keep..................................................? | | | | | |

| **Customer Satisfaction** | **SD** | **D** | **N** | **A** | **SA** |
|---|---|---|---|---|---|
| | [ ] | [ ] | [ ] | [ ] | [ ] |
| 1. I am happy doing business with my bank | [ ] | [ ] | [ ] | [ ] | [ ] |
| 2. Am satisfied with the services I get from my bank. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 3. I comfortable with my relationship with the bank. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 4. My bank always delivers superior services. | | | | | |
| 5. What would you want your bank to do to satisfy you more? ___________________________________ | | | | | |

| **Customer retention** | **SD** | **D** | **N** | **A** | **SA** |
|---|---|---|---|---|---|
| 1. Am willing to maintain my relationship with my bank for the next five years or more. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 2. I don't intend to switch from my bank in the near future. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 3. The services I get from my bank encourage me to continue banking with them. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 4. My bank gives me value for my money. | [ ] | [ ] | [ ] | [ ] | [ ] |

State two reasons that would make you switch from your current bank

**Value of Customer**

| | | SD | D | N | A | SA |
|---|---|---|---|---|---|---|
| 1 | I can always open another account with my bank when need arises. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 2 | I can always recommend my bank to my family and friends. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 3 | Generally, I am happy with the services I get from my bank. | [ ] | [ ] | [ ] | [ ] | [ ] |
| 4. | I transact frequently with my bank. | [ ] | [ ] | [ ] | [ ] | [ ] |

1. Do you think your bank is doing enough in terms of managing customer relationships?

Yes No

2. State three major challenges you have faced as you relate with your bank?

________________________________________

________________________________________

3. Do you think efficient management of the customer relationships increases marketing effectiveness in your bank?

a) If yes, please explain how?

________________________________________

b) If No, please give two suggestions on how customer relationship can be improved to increase marketing effectiveness.

________________________________________

Thank you,

Hellen W. Kabue

## Appendix II: Interview Guide for Management

What is your designation?

How many years have you served the bank?

Approximately how many customers does you bank have?

### Relationship initiation

1. What procedure does your bank follow in identifying potential customers?
2. Does your bank have effective, documented criteria of evaluating potential customers?
3. What procedure does your bank follow while recruiting new customers?
4. How often does your bank fail to meet its targets for customer acquisition for a given period of time?

### Creating Customer Value

1. What deliberate effort does your make in attempting to offer convenience and quality to the customers?
2. What deliberate effort does your bank in order to control the cost that the customers have to meet to access the services?
3. How do you rate the competitiveness of your banking charges?
4. In what ways does creating value for your customers contribute to customer retention?

**Complaints Handling**

1. What is your procedure for capturing customer complaints? Are they captured early enough?
2. How often do you measure your customers' satisfaction?
3. To what extent do think your complaints handling contributes to customer satisfaction and retention?

**Knowledge Management**

1. For what use is the feedback that you collect from your customers?
2. How does your bank relate communications to potential customer value?

**Key customer focus.**

1. What special incentives do you have for your key customers?

**Relationship Termination**

a) **Determining Customer Value**

1. What is your procedure for assess customers' future value and identifying non-profitable customers?
2. How do you track customer referrals?

**b) Discontinuing low value customers**

1. Does your bank have a documented procedure for actively discontinuing relationships with low-value customers?
   If yes, which methods do you use?
2. In your opinion, does terminating relationships with low-value customers increase

**Marketing Effectiveness**

1. What percentage is your bank's customer retention level?
2. Does your bank do selective customer retention?
3. If yes what percentage of the valued customers is the bank able to retain?
4. Do you think efficient management of the customer relationship processes

Marketing effectiveness in your bank?

**Commitment-Trust**

1. What measures do you have in place to help keep promises made to customers?
2. Do you think the bank allocates sufficient resources to customer relationships management activities?
3. In your own opinion, how does the level of the bank's commitment to the customers contribute to customer retention?
4. How does your bank ensure high levels of integrity of employees?
5. What measures do you have in place to help ensure fair treatment to all customers?

**Customer satisfaction**

1. To what percentage would you rate the level of your customer satisfaction?

## Appendix III: List of Participating Banks

1. African Banking Corporation
2. Barclays Bank of Kenya Ltd.
3. Co-operative Bank of Kenya Ltd.
4. Commercial Bank of Africa Ltd.
5. Chase bank Ltd.
6. Bank of Africa (Kenya) Ltd.
7. Consolidated Bank of Kenya Ltd
8. Diamond Trust Bank
9. Equity Bank Ltd.
10. Family Bank Ltd.
11. Giro Commercial Bank Ltd.
12. Gulf African Bank Ltd.
13. Guardian Bank Ltd.
14. Housing Finance Corporation
15. I&M Bank Ltd.
16. Jamii Bora Bank Ltd.
17. Kenya Commercial Bank
18. K-Rep Bank Ltd.
19. Middle East Bank(K) Ltd
20. National Bank of Kenya
21. NIC Bank Ltd.
22. Oriental Commercial Bank Ltd.
23. Paramount Universal Bank Ltd.
24. Prime Bank Ltd.
25. Transnational Bank Ltd.

## Appendix IV: Central bank of kenya classification of Kenyan banks by peer Group

| | | MARKET SIZE INDEX | NET ASSETS | % OF THE MARKET | TOTAL DEPOSITS | % OF THE MARKET | TOTAL CAPITAL | % OF THE MARKET | TOTAL NUMBER OF DEPOSIT ACCOUNTS (Millions) | % OF THE MARKET | TO NUM LO ACC (Mi |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Weighting** | | **0.33** | | **0.33** | | **0.33** | | **0.005** | | |
| | **Large Peer Group>5%** | | | | | | | | | | |
| **1** | Kenya Commercial Bank Ltd | 12.83% | 323,312 | 12.0% | 237,213 | 12.3% | 62,391 | 14.4% | 1.721 | 7.90% | |
| **2** | Equity Bank Ltd | 9.79% | 238,194 | 8.8% | 158,527 | 8.2% | 50,687 | 11.7% | 7.392 | 33.92% | |
| **3** | Co-operative Bank of Kenya Ltd | 8.61% | 228,874 | 8.5% | 174,776 | 9.0% | 35,652 | 8.2% | 2.313 | 10.61% | |
| **4** | Standard Chartered Bank (K) Ltd | 8.09% | 220,524 | 8.2% | 154,720 | 8.0% | 36,030 | 8.3% | 0.196 | 0.90% | |
| **5** | Barclays Bank of Kenya Ltd | 7.65% | 207,010 | 7.7% | 151,122 | 7.8% | 32,371 | 7.5% | 1.240 | 5.69% | |
| **6** | CFC Stanbic Bank (K) Ltd | 5.43% | 170,726 | 6.3% | 95,708 | 4.9% | 22,353 | 5.2% | 0.102 | 0.47% | |
| | **Sub-Total** | **52.39%** | **1,388,641** | **51.37%** | **972,066** | **50.2%** | **239,484** | **55.4%** | **12.964** | **59.48%** | |
| | **Medium Peer Group> 1% &< 5%** | | | | | | | | | | |
| **7** | Commercial | 4.40% | 124,882 | 4.6% | 90,993 | 4.7% | 13,749 | 3.2% | 5.653 | 25.94% | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Bank of Africa Ltd | | | | | | | | | |
| **8** | Diamond Trust Bank (K) Ltd | 4.26% | 114,136 | 4.2% | 84,672 | 4.4% | 18,568 | 4.3% | 0.170 | 0. |
| **9** | I&M Bank Ltd | 4.19% | 110,316 | 4.1% | 74,494 | 3.8% | 20,525 | 4.7% | 0.016 | 0. |
| **10** | NIC Bank Ltd | 4.17% | 112,917 | 4.2% | 84,236 | 4.4% | 17,631 | 4.1% | 0.068 | 0. |
| **11** | National Bank of Kenya Ltd | 3.39% | 92,493 | 3.4% | 77,993 | 4.0% | 11,848 | 2.7% | 0.522 | 2. |
| **12** | Citibank N.A. Kenya | 2.83% | 71,243 | 2.6% | 43,762 | 2.3% | 15,964 | 3.7% | 0.002 | 0. |
| **13** | Chase Bank Ltd | 2.40% | 76,569 | 2.8% | 51,942 | 2.7% | 7,487 | 1.7% | 0.035 | 0. |
| **14** | Bank of Baroda (K) Ltd | 1.93% | 52,022 | 1.9% | 41,877 | 2.2% | 7,569 | 1.8% | 0.041 | 0. |
| **15** | Bank of Africa (K) Ltd | 1.77% | 52,683 | 1.9% | 36,740 | 1.9% | 6,539 | 1.5% | 0.045 | 0. |
| **16** | Prime Bank Ltd | 1.74% | 49,461 | 1.8% | 40,562 | 2.1% | 5,816 | 1.3% | 0.026 | 0. |
| **17** | Family Bank Ltd | 1.62% | 43,501 | 1.6% | 34,615 | 1.8% | 5,968 | 1.4% | 1.326 | 6. |
| **18** | Imperial Bank Ltd | 1.55% | 43,006 | 1.6% | 34,065 | 1.8% | 5,719 | 1.3% | 0.048 | 0. |
| **19** | Housing Finance Corporation | 1.46% | 46,755 | 1.7% | 26,589 | 1.4% | 5,682 | 1.3% | 0.061 | 0. |
| **20** | Bank of India | 1.15% | 30,721 | 1.1% | 22,778 | 1.2% | 5,087 | 1.2% | 0.015 | 0. |
| **21** | Ecobank Kenya Ltd | 1.15% | 36,907 | 1.4% | 25,351 | 1.3% | 3,390 | 0.8% | 0.125 | 0. |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **22** | Guaranty Trust Bank Ltd | 1.09% | 25,638 | 0.95% | 18,447 | 1.0% | 6,091 | 1.4% | 0.017 | 0.08% |
| | **Sub-Total Small Peer Group<1%** | **39.09%** | **1,083,250** | **40.1%** | **789,114** | **40.8%** | **157,633** | **36.5%** | **8.171** | **37.49%** |
| **23** | African Banking Corporation Ltd | 0.70% | 19,639 | 0.7% | 15,905 | 0.8% | 2,450 | 0.6% | 0.024 | 0.11% |
| **24** | Gulf African Bank Ltd | 0.62% | 16,054 | 0.6% | 12,970 | 0.7% | 2,686 | 0.6% | 0.049 | 0.22% |
| **25** | Equatorial Commercial Bank Ltd | 0.53% | 15,562 | 0.58% | 13,856 | 0.7% | 1,371 | 0.3% | 0.012 | 0.06% |
| **26** | Giro Commercial Bank Ltd | 0.52% | 13,623 | 0.5% | 11,457 | 0.6% | 2,087 | 0.5% | 0.009 | 0.04% |
| **27** | Victoria Commercial Bank Ltd | 0.51% | 13,644 | 0.5% | 9,044 | 0.5% | 2,528 | 0.6% | 0.003 | 0.02% |
| **28** | Consolidated Bank of Kenya Ltd | 0.50% | 16,779 | 0.6% | 11,711 | 0.6% | 1,242 | 0.3% | 0.045 | 0.21% |
| **29** | Development Bank of Kenya Ltd | 0.47% | 15,581 | 0.6% | 8,419 | 0.4% | 1,822 | 0.4% | 0.002 | 0.01% |
| **30** | K - Rep Bank Ltd | 0.47% | 13,199 | 0.5% | 9,165 | 0.5% | 1,868 | 0.4% | 0.230 | 1.06% |
| **31** | Guardian Bank Ltd | 0.46% | 12,835 | 0.5% | 11,181 | 0.6% | 1,494 | 0.3% | 0.009 | 0.04% |
| **32** | Fidelity Commercial Bank Ltd | 0.46% | 12,779 | 0.5% | 11,263 | 0.6% | 1,411 | 0.3% | 0.009 | 0.04% |
| **33** | Habib Bank A.G. Zurich | 0.42% | 11,009 | 0.4% | 8,336 | 0.4% | 1,843 | 0.4% | 0.006 | 0.03% |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **34** | First Community Bank Ltd | 0.40% | 11,305 | 0.4% | 9,932 | 0.5% | 1,210 | 0.3% | 0.075 | 0. |
| **35** | Trans - National Bank Ltd | 0.39% | 9,658 | 0.4% | 7,181 | 0.4% | 1,869 | 0.4% | 0.039 | 0. |
| **36** | Habib Bank Ltd | 0.32% | 8,078 | 0.3% | 5,599 | 0.3% | 1,667 | 0.4% | 0.004 | 0. |
| **37** | Jamii Bora Bank Ltd | 0.32% | 7,010 | 0.3% | 3,421 | 0.2% | 2,251 | 0.5% | 0.104 | 0. |
| **38** | Paramount Universal Bank Ltd | 0.30% | 8,029 | 0.3% | 6,601 | 0.3% | 1,230 | 0.3% | 0.011 | 0. |
| **39** | Oriental Commercial Bank Ltd | 0.29% | 7,007 | 0.3% | 5,377 | 0.3% | 1,524 | 0.4% | 0.006 | 0. |
| **40** | Credit Bank Ltd | 0.28% | 7,309 | 0.3% | 5,512 | 0.3% | 1,238 | 0.3% | 0.010 | 0. |
| **41** | Middle East Bank (K) Ltd | 0.22% | 5,766 | 0.2% | 3,649 | 0.2% | 1,175 | 0.3% | 0.002 | 0. |
| **42** | UBA Kenya Ltd | 0.17% | 3,710 | 0.1% | 2,483 | 0.1% | 1,059 | 0.2% | 0.003 | 0. |
| **43** | Dubai Bank Ltd | 0.14% | 2,927 | 0.1% | 1,418 | 0.1% | 1,036 | 0.2% | 0.007 | 0. |
| **44** | Charterhouse Bank Ltd | 0.00% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0. |
| | **Sub-Total** | **8.51%** | **231,503** | **8.6%** | **174,481** | **9.0%** | **35,061** | **8.1%** | **0.660** | **3.0** |
| | **Grand-Total** | **100%** | **2,703,394** | **100%** | **1,935,661** | **100%** | **432,178** | **100%** | **21.796** | **10** |

Market share index is the composite of net assets, deposits, capital , number of loan accounts and number of deposit accounts

**Source**: Bank Supervision

## Appendix V: Introduction letter

**Jomo Kenyatta University of Agriculture and Technology**
**School for Entrepreneurship, Procurement & Management**
**Department of Entrepreneurship, Technology Leadership and Management**

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P.O. Box 62000
NAIROBI

**Date:** 20/01/2015

Ref: JKU/SHRD/ EPD/PhE/14(04)

To whom it may concern:

Dear Sir/Madam,

**RE: PhD RESEARCH PROJECT FOR: MS. HELLEN WANJUGU KABUE (HD433-1373/2011)**

This is to introduce to you **Ms. Kabue** who is a student pursuing Doctor of Philosophy course in Business Administration in the Department of Entrepreneurship, Technology Leadership and Management in the School of Entrepreneurship, procurement and Management at Jomo Kenyatta University of Agriculture and Technology.

The student is currently undertaking a research pr[illegible] **Management Process and Marketing Effectiveness,"** *in* partial fulfilment of the requirement for the programme.

The purpose of this letter is to request you to give the student the necessary support and assistance to enable her obtain the necessary data for the research. Please note that the information given is purely for academic purposes and will be treated with strict confidence.

Thank you.

Yours faithfully,

JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY
P.O. BOX 62000-00200 NAIROBI
02 JAN 2015
20 JAN 2015
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**ESTHER WAIGANJO PH.D.,**
**COD, ENTREPRENEURSHIP, TECHNOLOGY, LEADERSHIP AND MANAGEMENT DEPARTMENT**

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