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INFLUENCE OF CUSTOMER RECOGNITION ON CUSTOMER RETENTION IN COMMERCIAL BANKS

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ABSTRACT

The purpose of the study was to establish the effect of Customer recognition on customer retention in commercial banks. The study adopted a descriptive research design. The study targeted all the commercial banks in Kenya. The study was a census survey and thus collected data from all the 43 commercial banks. Purposive sampling was used to select the 43 managers of the marketing departments in each bank. The study used both primary data and secondary data. Primary was collected using questionnaires. To test the validity and reliability of the instrument that was used, pilot study was conducted. The researcher used descriptive statistics where frequencies and Percentage of responses were obtained through the use of SPSS. The measures of dispersion such as the mean and standard deviations were used. Tables and other graphical presentations such as bar charts, histogram, grouped frequency distributions and pie charts as appropriate were used to present the data collected for ease of understanding and analysis. The study found that customer recognition affect customer retention in commercial banks to a great extent. Thus commercial banks should continue in their customer recognition strategy to retain their customers.

Key Words; *Customer Recognition, Customer Retention*

INTRODUCTION

A company's revenue is achieved from new and repeat customers. It is substantially more cost-effective to retain existing customers than attract new ones. Existing customers have known and identified needs that have been satisfied by the organizations products or services in the past. By focusing the organizations marketing strategy on the profitable segments of their customer base an organization will normally produce most of the required revenue and increase their market share without investing in acquiring new customers which is much more expensive than retaining old ones. Loyal customers not only repurchase, but also advocate products and services to their friends pay less attention to competitive brands and often buy product and service line extensions (Baumeister, 2002).

According to Lahtinen and Isoviita, (2014) the concept of Customer Relationship Management entails all aspects of interaction that a company has with its customer, whether it is sales or service-related. Therefore, it is often thought of as a business strategy that enables businesses to: understand the customer, retain customers through better customer experience, attract new customer, and Increase profitably. While the phrase customer relationship management is most commonly used to describe a business customer relationship, the systems are used in the same way to manage business contacts, clients, contract wins and sales leads.

A Customer Relationship Management is a tool for effectiveness measurement mechanism that can increase the probability of projects success by recognizing advantages of implementing such as cost decrease, customer satisfaction, retention and loyalty. Customer Relationship Management technology is offered on-premise, on demand or through Software as a Service. The basic stages of Customer Relationship Management namely; establishing, enhancing and ending. To understand more in customer relationship management, we need to consider three components; customer, relationship and management (Peppers and Rogers, 2004). Park and Kim (2003) defined customers as one whose identification and contact exists within the firm.

To develop effective retention strategies an organization has to have an in depth knowledge of customers behavior and needs. Loyalty is a physical and emotional commitment given by customers in exchange for their needs being met (Stone, et al 2002). Customer loyalty that leads to retention will develop over time if the parameters for the relationship are planned and implemented correctly. In a democratized market it is the quality and depth of the customers' relationships-physically and psychologically that ultimately differentiates between brands (Burnett, 2004).

Customer retention refers to keeping a client’s business rather than have the client use competitors' services or products. Repeat customers are people who buy from you again and again. Customer retention embodies repeated behavior and reflects relationship continuation. Customer retention is an essential part of customer relationship management and organizations must take this into account (Watkins, 1999) .The longer a customer stays with an organization the more utility the customer generates to the organization. Maintaining high levels of satisfaction will not, by itself, ensure customer loyalty. Organizations lose satisfied customers who have relocated, retired, or no longer need certain services. As a consequence, retaining customers becomes a priority.

Companies that have a monopoly or exclusive product of some sort easily retain customers. A customer may not be thrilled by an organization but the rational experience (convenience) outweighs the emotional experience (the fact that you dislike them). In this case, customer retention numbers may appear high, but it's built on a false premise. As soon as an alternative is available, many customers will disappear. The emotions evoked by a customer experience act as a chief mediator for customer retention (Chen & Popovich, 2003). When combined with an organization's strong reputation and recognized expertise, customer emotions are the chief determinant of customer retention. Without the emotional bond necessary to retain customers, customer loyalty is impossible. Interactions that evoke negative feelings, stress or manipulative tactics negate trust. And while there are a few notable exceptions, most companies do not intend to negate trust. Failure to craft a deliberate customer experience puts organizations at risk for doing just that.

The advantage of customer retention to the organization is that it provides for cost savings, risk taking -comfort with a company and trust in their expertise leads people to try new things, preferential shopping- most people tend to go to one or two organizations over and over again for a reason: They know what is going to be there, where to find it, etc. Evangelism-customers who like your products and feel like you have treated them well will sell your product for you. They may not sell it hard, but they will recommend it to friends, tailoring Your Wares -when you know a customer, you can make informed recommendations or ensure that you carry a certain item that you know they are going to want.

Customer relationship management solutions provide you with the customer business data to help you provide services or products that your customers want, to provide better customer service, cross-sell and up sell more effectively, close deals, retain current customers and understand who the customer is. Technology and the Web has changed the way companies approach Customer Relationship Management strategies because advances in technology have also changed consumer buying behaviour and offers new ways for companies to communicate with customers and collect data about them.

Many aspects of Customer Relationship Management rely heavily on technology; however the strategies and processes of a good Customer Relationship Management system will collect, manage and link information about the customer with the goal of letting you market and sell services effectively (Lahtinen & Isoviita, 2014). Therefore, customer relationship management is a comprehensive strategy and process which focus to establish, maintain and enhance relationship with customers and to create value for the organization (Jham & Kalem, 2008).

Today, many businesses realize the importance of customer relationship management and its potential to help them acquire new customers retain existing ones and maximize their lifetime value. Customer relationship management is a business strategy to identify the most profitable customer and prospects and devotes time and attention to expanding account relationships with those customers. In this regard, Customer Relationship Management has become one of the tools used to create a competitive advantage in our businesses especially the banking industry in Kenya (Jham & Kalem, 2008).

The most lasting way of retaining customers, however, is through conscientious service that includes following up on any issues or complaints. If a consumer has a negative shopping experience with a company, he or she may deal with that business less often or not at all. If the firm sincerely apologizes and takes the time to have a polite representative telephone the customer occasionally to see how they can meet his or her needs, the consumer may reconsider and keep dealing with that company despite any past unpleasantness. In this light, this proposal uses a case study to examine how CRM has influenced its processes and outcomes, especially in regard to customer retention, in KCB bank. Customers have always been the main concern for businesses all over the world.

According to the Central Bank of Kenya (CBK) website (*www.centralbank.go.ke - 2016)* there are 43 licensed commercial banks and 1 Mortgage Finance Company. Of these 44 institutions, 24 are locally owned, 14 have foreign interests either by incorporation or ownership and the remaining 6 have government participation in their activities. Commercial banks in Kenya are licensed and guided by prudential guidelines formulated by the CBK. Kenyan commercial banks display cartel like characteristics with 10 banks owing 75% of the total assets in the industry (Market

Intelligence, 2000). As profit driven institutions commercial banks are predisposed to adapt various strategies to improve service delivery in order to attract and retain more clients.

Statement of the Problem

The importance of customers has been highlighted by lots of researchers and academicians all around the world. Top performing financial institutions believe that customers are the purpose of what they do and they very much depend on them; customers are not the source of a problem and they should never make a wish that customers „should go away" because their future and security will put in jeopardy. That is the main reason why financial institutions of today are focusing much attention on customer satisfaction, loyalty and retention (Zairi, 2014). Satisfaction is an overall customer attitude or behavior towards a service provider, or an emotional reaction towards the difference between what customers expect and what they receive, regarding the fulfillment of some desire, need or goal (Hansemark, & Albinsson, 2014; Kotler, 2014).

Customer loyalty, on the other hand, is the result of an organization's creating a benefit for customers so that they will maintain and increasingly repeat business with the organization (Anderson, & Jacobsen, 2014). Equally well, dissatisfied customers are more likely to tell another ten people about their unfortunate experiences with a particular organization. In order to achieve customer satisfaction, organizations must be able to build and maintain long lasting relationships with customers through satisfying various customer needs and demands which resultantly motivates them to continue to do business with the organization on on-going basis (La Barbera & Mazursky, 2013). Although, previous research has attempted to examine the link between (a) customer satisfaction and customer loyalty and (b) customer satisfaction and customer retentions to switch in various industries but there are still lack of research in banking sector to investigate whether customer relationship management influences customer retention in commercial banks. It is evident that there is need to carry out further studies to establish whether customer relationship management influences customer retention in commercial banks. This study therefore sought to establish the effects of customer recognation on customer retention in commercial banks using the case of Kenya Commercial bank Limited.

LITERATURE REVIEW

Theoretical review

Relationship Marketing Theory

The challenge for most companies today is to thrive in a relationship economy (Cap Gemini Ernst & Young, 2005). Competition for the most profitable customer relationships is extremely tough and companies need to know who their customers are. This includes aspects like their preferences, their habits, and their experiences with companies and very importantly, their value. Customers have become very demanding and their expectations have increased to new heights. The environment has evolved into a complex landscape, which has resulted in the high value placed on relationship marketing today. Relationship marketing has evolved from a primary focus on consumer goods in the 1950s, industrial marketing in the 1960s, nonprofit and societal marketing in the 1970s, services marketing in the 1980s and finally, relationship marketing in the 1990s (Christopher, Payne & Ballantyne, 1991). Gronroos (1994) states that a paradigm shift is evolving in marketing from the focus on the four P's of marketing - product, price, place and promotion - to a new approach based on building and management of relationships. Relationship marketing, as part of marketing, involves the relationships and interactions between customers, suppliers, competitors, and others. This however, does not mean that the four P's are less valuable, but that the focus has moved to a new paradigm where a more market-oriented drive and the customer as focal point are suggested as the marketing concept. Relationship building can be seen as the cornerstone of marketing (Gronroos, 1994). Relationship marketing has focused on customer retention, service, and product benefits, a long-term scale, service emphasis, high customer commitment, customer contact, quality, and finally customer loyalty (Cheese, 1994).

Relationship marketing's focus is to move customers up the ladder of loyalty The relationship marketing strategy also seeks to change the market demands in favour of a particular company by providing unique value, which must be sustainable over time. Relationship marketing is seen as a combination of quality, customer service, and marketing. The key relationship is based on the relationship between the supplier and the customer. All of this reflects the notion that the centre of the relationship marketing philosophy is to make the most of existing customers (retention) to enable the company to make long-term profits(Voss & Voss, 1997).

Relationship marketing is similar to the concept of one-to-one marketing. One-to-one marketing means "to be willing and able to change your behaviour toward an individual customer based on what the customer tells you and what else you know about that customer" (Peppers, Rogers & Dorf, 1999: 3). It is grounded in the principle of establishing a learning relationship with each customer, with the focus on your most valuable ones. The marketing concept sees customer satisfaction as the highway to profits (Perreault & McCarthy, 2002). However, although it seems logical, it is not automatic, as satisfaction does not by itself lead to profits (Gummesson, 1998). The customer relationship must be maintained to sustain repurchase loyalty and retention, which will lead to profitability. Customer value reflects benefits and costs, or the difference between the benefits from the market offering and the costs of obtaining the benefits. Providing continuous value to customers underpins the relationship (Cram, 2001).

Empirical review

Jeffries (2007) states that organisations can retain their best employees by recognizing their contributions to the organisation. Recognition, she argues, motivates employees, as it involves the acknowledgement of the efforts, creativity and willingness of employees to put in extra effort. The author reports on a survey that was conducted by the Performance Enhancement Group that shows that employees favour daily recognition over bonus or higher pay. The study also further revealed that employees who are recognised demonstrate their best efforts in their work.

Recognition programmes have the purpose of keeping employees motivated and productive and are seen to be effective methods of reinforcing company expectations and goals. The Report on salary survey (2003) conducted in the USA by the Institute of Management and Administration provides some noteworthy statistics on recognition programmes. They found that: recognition programmes were becoming more wide-spread, with 84% of organisations having one in place, and 54% of those without any programmes reporting that they may implement one in the next 12 months; the number one reason for implementing a recognition programme is to create a positive work environment, followed by reinforcing positive behaviours and motivating high performance and that most of these programmes offered both formal and informal types of recognition.

According to Buttle (2004) a company should build long-term mutually-beneficial relationships with its strategically-significant customers. Some customers are merely expensive to acquire and service. Buttle (2004) has identified four types of strategically significant customer (SSC) such as the high life-time value (LTV) customer that is a key SSC and the present day of all margins that might be earned in a relationship. Tempting as it may be to believe, not all high volume customers have high LTV. If they demand just in time service (lIT), customized delivery, or are in other ways costly to serve, their value may be significantly reduced. The second group of SSC is "benchmarks" who are customers that other customer's copy. The third groups of SSCs are customers who are 'inspirations'. They are the ones that find new applications, come up with new product ideas, and find ways of improving quality or reducing cost. They may be the most demanding of customers, or frequent complainers, and though their own LTV potential low, they offer other significant sources of value. The fourth groups deals with what (Buttle, 2004) calls "cost magnets" relating to those that absorb a disproportionately high volume of fixed cost, thus enabling other, smaller customers to become profitable.

Organizations need to segment their customers in order to determine which of customers are most profitable. The result the companies should seek is realizing their target customer base. They should rate and segment their clients into groups that are most desirable to do business with, and then they meet their criteria for what a desirable customer is.

RESEARCH METHODOLOGY

The study adopted a descriptive research design. The study targeted all the commercial banks in Kenya. The study was a census survey and thus collected data from all the 43 commercial banks. Purposive sampling was used to select the managers of the marketing departments in each bank. The sample size was thus 43 respondents. The study used both primary data and secondary data. Primary was collected using questionnaires. To test the validity and reliability of the instrument that was used, pilot study was conducted. The researcher used descriptive statistics where frequencies and Percentage of responses were obtained through the use of SPSS. The measures of dispersion such as the mean and standard deviations were used. Tables and other graphical presentations such as bar charts, histogram, grouped frequency distributions and pie charts as appropriate were used to present the data collected for ease of understanding and analysis.

STUDY RESULTS

The study sought to find out the extent to which customer recognition affect customer retention in commercial banks.

Table 1: Extent to which customer recognition affect customer retention

	Frequency	**Percentage**
Very great extent	7	20.0
Great extent	18	51.4
Moderate extent	5	14.3
Little extent	2	5.7
Total	**35**	**100**

From the findings, majority of the respondents (51.4%) indicated great extent, 20% indicated to a very great extent, 14.3% indicated to a moderate extent while 5.7% indicated to a little extent. This implies that customer recognition affect customer retention in commercial banks to a great extent.

The study sought the respondents' level of agreement with on statement relating to the effects of customer recognition on customer retention in commercial banks.

Table 2: Statement relating to the effects of customer recognition on customer retention

	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Mean**	**Standard dev**
The organization recognizes loyal customers	0	0	1	19	15	4.40	0.264
Customer recognition in the organization enables customized service to the loyal customers	0	0	2	20	13	4.31	0.259
Recognized customers have a sense of belonging to the organization thus are likely to remain loyal in the organization	0	0	1	20	14	4.37	0.268
Customers in the organization are recognized and segmented	0	1	2	18	14	4.29	0.239
Customer reorganization is key to retaining customers in any organization	0	0	0	20	15	4.43	0.278

From the findings majority of the respondents agreed that customer reorganization is key to retaining customers in any organization as shown by a mean of 4.43, the organization recognizes loyal customers as shown by a mean of 4.40, recognized customers have a sense of belonging to the organization thus are likely to remain loyal in the organization as shown by a mean of 4.37, customer recognition in the organization enables customized service to the loyal customers as shown by a mean of 4.31 and that customers in the organization are recognized and segmented as shown by a mean of 4.29.

Conclusion

The study concludes that customer recognition affect customer retention in commercial banks to a great extent. Customer reorganization is key to retaining customers in any organization and the commercial banks recognize loyal customers. Recognized customers have a sense of belonging to the organization thus are likely to remain loyal in the organization. Customer recognition in the organization enables customized service to the loyal customers.

Recommendations

The study revealed that customer recognition affect customer retention in commercial banks to a great extent. Customers have a sense of belonging to the organization thus are likely to remain loyal in the organization. Thus commercial banks should continue in their customer recognition strategy to retain their customers.

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