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INFLUENCE OF INFORMATION TECHNOLOGY ON CUSTOMER RETENTION IN COMMERCIAL BANKS

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ABSTRACT

The purpose of the study was to establish the effect of information technology 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 Information technology affects customer retention by enhancing effective communications with customers and enable quick response to customer complains. The banks have integrated information technology to improve the capabilities of understanding customer behavior and Information Technology enables customized experience. Commercial banks should thus integrate information technology to improve the capabilities of understanding customer behavior.

Key Words: *Information Technology, Customer Retention*

INTRODUCTION

All company's revenue is achieved from two groups of customers. These are the 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 information technology 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

In Kenya, ICT has assumed a central position in the development agenda of most financial institutions due to their critical role such as reduction of costs, broadening of market reach and creation of overall country competitiveness. According to Hofacker et al. (2007), ICT affects financial institutions by easing enquiry, saving time, and improving service delivery. In recent decades, investment in ICT by Kenyan banks has served to streamline operations, improve competitiveness and increase the variety and quality of services provided. The implementation of information technology and communication networking has brought revolution in the functioning of banks in Kenya.

Giannakoudi (1999) argues that Information technology enables electronic channels to perform many banking functions that would traditionally be carried out over the counter. Rose and Hudgins (2005) further states that paper cheques are gradually being supplemented with electronic images, permitting greater storage capacity, reducing costs and improving customer services. The evolution of electronic banking, such as internet banking from electronic commerce, has altered the nature of personal customer banking relationships and has many advantages over traditional banking delivery channels.

Arora and Ferrand, (2007), reveal that technology adoption especially, in banking systems has shown a great momentum and spread at an unbelievable pace across the world. Considering the importance of banking system‘s high presence and affordability, there is great potential of using this in agent banking for provision of banking services to unbanked community (Arora and Ferrand, 2007). However, technology systems have associated data and network security risks which make them susceptible for conducting financial transactions. Technology risks regarding information and data security based on applicable models of agent banking have been reported thus creating uncertainty to the clients (Owens, 2006).

Technology refers to computing capabilities that allow a company to collect, organize, save and use data about its customer. Technology is the enabler for CRM systems to achieve their objectives of collecting, classifying and saving valuable data on customers. Integration technologies allow organizations to develop a better relationship with customers by providing a wider view of customer behavior (Thompson, 2006). Thus, organizations are required to integrate IT to improve the capabilities of understanding customer behavior, develop predictive models, build effective communications with customers and respond to those customers in real time and with accurate information (Chen & Popovich, 2003).

With advanced technologies, tasks are done faster and more accurately thus customers get better service. The onset, growth and availability of technologies in the financial services market in Kenya has allowed for one branch banking within even the region (KCB customers for example can access their accounts in all the countries in which it is present), mobile money transfers, transfers between banks take a day for completion of the transaction, depositing or withdrawing

money into ones bank account using their mobile phones and establishing call centers among others.

The essence of the information technology revolution and, in particular, the World Wide Web is the opportunity to build better relationships with customers than has been previously impossible in the offline world. By combining the abilities to respond directly to customer requests and to provide the customer with a highly interactive, customized experience, companies have a greater ability today to establish, nurture, and sustain long-term customer relationships than ever before. The ultimate goal is to transform these relationships into greater profitability by increasing repeat purchase rates and reducing customer acquisition costs.

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.

RESULTS

The study sought to find out the extent to which Information technology affect customer retention.

Table 1: Extent to which Information technology affect customer retention

	Frequency	**Percentage**
Very Great Extent	9	25.7
Great Extent	16	45.7
Moderate Extent	7	20.0
Little Extent	2	5.7
No Extent	1	2.9
Total	**35**	**100**

From the study findings, most of the respondents (45.7%) indicated to a great extent, 25.7% to a very great extent, 20% to a moderate extent, 5.7% to a little extent while 2.9% to no extent at all. This implies that Information technology affect customer retention to a great extent.

The study sought to find out the level of agreement on statements relating to the effects of Information technology on customer retention in commercial banks.

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

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Standard dev
Automation of our services has helped retain most of our customers	0	0	1	21	13	4.34	0.273
Technology has facilitated efficiency and reliability of our banking service to customers	0	1	2	20	12	4.23	0.249
The bank has integrated information technology to improve the capabilities of understanding customer behavior	0	0	1	20	14	4.37	0.268
Information technology enhances effective communications with customers and enable quick response to customer complains	0	0	1	18	16	4.43	0.262
Information Technology enables customized experience	0	0	1	20	14	4.37	0.268

From the study findings, majority of the respondents agreed that; information technology enhances effective communications with customers and enable quick response to customer complains as shown by a mean of 4.43, the bank has integrated information technology to improve the capabilities of understanding customer behavior and that Information Technology enables customized experience as shown by a mean of 4.37 in each case, automation of our services has helped retain most of our customers as shown by a mean of 4.34 and that technology has facilitated efficiency and reliability of our banking service to customers as shown by a mean of 4.23. The study further found that commercial banks integrate IT to improve the capabilities of understanding customer behavior and build effective communications with customers.

Conclusion

Information technology affects customer retention by enhancing effective communications with customers and enable quick response to customer complains. The banks have integrated information technology to improve the capabilities of understanding customer behavior and Information Technology enables customized experience. Automation of banks' services has helped retain most of their customers by facilitating efficiency and reliability of banking service to customers.

Recommendations

Information technology affects customer retention by enhancing effective communications with customers and enable quick response to customer complains. Commercial banks should thus integrate information technology to improve the capabilities of understanding customer behavior.

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