QUALITY AND CUSTOMER RELATIONSHIP MANAGEMENT (CRM) AS A COMPETITIVE STRATEGY IN THE BANKING INDUSTRY IN KENYA

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DECLARATION

Declaration by Candidate

I declare that this project is my original work and has never been presented in any other institution/University.

Signed: .... **Date:** 11/11/2011 ....

MICHAEL KATIVA KYAMBATI

D61/P/8074/2002

Declaration by Supervisor

This project has been submitted for examination with my approval as University Supervisor.

Signed: .... **Date:** 12/November/2011 ....

PROF. PETER K'OBONYO

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I take this opportunity to first, thank God for good health and for bringing me this far. I wish to acknowledge every one who assisted me in completing this study. I extend my gratitude to my supervisor for his encouragement and patience in reading, correcting, re-reading and refining this work is greatly appreciated.

DEDICATION

This work is dedicated to my family who provided me with the motivation and for their care and sacrifice throughout my studies. Their love, care, concern, support, encouragement and enthusiasm inspired me to achieve this goal.

ABSTRACT

An investigation on how Quality and Customer Relationship Management (CRM) acts as a competitive strategy in the banking industry in Kenya is a study that has attempted to evaluate the benefits and impacts that are associated to the their adoption in banking industry. The relationships between service quality and customer relationship management are also established in this study to evaluate their effectiveness in the implementation of the competitive advantage in banks. The target population of the study was the whole population of the different types of banks operating in Kenya. These included the commercial, investment and the retail banks. The respondents were the Customer Relations Mangers in the respective banks. Data collection was therefore meant to collect the first hand information (quantitative data) that was used in the analysis of the study.

The study focused in gathering the information associated to the adoption, effectiveness and impacts of SQM and CRM as competitive strategies which are practiced in banking industry. There is a clear relationship between the SQM & CRM and the performance of the banks in Kenya which greatly influences the extent of competition and implementation. The findings imply that CRM has a great impact on the customers behavior for instance their attitude towards the bank is greatly improved, the Bank's understanding of customer expectations is greatly enhanced, while the customers' perceptions on the quality of the banks' services is changed. These include other factors such as the reliability of the banks, efficiency in communication, customer retention are also greatly supported in the banks due to the adoption of CRM strategies. The benefits which are greatly realized in the banks due to effective SQM are for instance lower costs and efficiency in operation, improvement in product quality, improved market share, better reputation, and increased customer satisfaction.

It is recommended that further study should be done on the challenges facing the adoption of services quality management in the banking industry which would help to explain why banks have varied performance levels and difference in the customer perception toward their services.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

A primary purpose of management and marketing strategy is to develop a competitive advantage (Devlin and Ennew, 1997). A competitive advantage provides customers with superior value compared to competitive offerings. According to Porter (1980), there are two generic ways of establishing a competitive advantage, the low-cost supplier or by differentiating the offer in a unique and valuable way. Every company has to consider how to enter a market and then build and protect its competitive position. Banks begin to realize that no bank can offer all products and be the best/leading bank for all customers. They are forced to find a new basis for competition and they have to improve the quality of their own products/services (Zineldin, 1996).

Banking has traditionally operated in a relatively stable environment for decades. However, today the industry is facing a dramatically aggressive competition in a new deregulated environment. The net result of the recent competition and legislation is that traditional banks have lost a substantial proportion of their domestic business to essentially non-bank competition. Competition will undoubtedly continue to be a more significant factor Finding a place in this heating sun becomes vital to the long-range profitability and ultimate survival of the bank. Those banks that are not considering the new atmosphere to build and protect their competitive position will likely become victims of that heating sun.

Evaluation of the relationship among quality, productivity and positioning requires an understanding and examination of the elements of quality relative to the operations strategy (Zineldin, 1995). Improving the intangible attributes of service quality is not necessarily achieved by higher resource spending. It is likely that the service quality may still be perceived as poor because intangible aspects of the service package are not being addressed. Many banks have found themselves in this position with many of their customers.

Quality does not improve unless you measure it (Asser et al., 1990). Customer relationship and quality presents special problems in measurement both at the level of the economy and the level of the operation (business). One way to resolve some of the dilemmas over measurement is to make the link more obvious between the competitive positioning, customer relationship, and quality. Positioning includes statements on the nature and volume of the customers' needs and wants (demand) and the variety and quality of the prodserv in the competitive marketplace.

Competitive Strategies

Strategy concerns planning and executing company's growth (Herman, 2005) and strategic initiative entails the ability to capture control of strategic behaviour in the industries in which a firm competes (MacMillan 1983). Strategy is about ensuring the survival and prosperity of a firm (Grant, 2005). A competitive strategy, from a business level perspective, is the achievement of competitive advantage by a business unit in its particular market (Johnson, Scholes & Wittington, 2006). Sidorowicz (2007) views competitive strategies as more skill-based and involving strategic thinking, innovation, execution, critical thinking, positioning and the art of warfare. A competitive strategy is one that specifically directs an organization in gaining a competitive advantage above its rivals (Porter, 1986). Firms that engage in strategic planning and have appropriately designed and applied competitive strategies tend to have higher performance than those that do not. Competitive strategies can lead to high organizational performance, customer satisfaction, and increased competitiveness in the face of other rival businesses. However, achieving competitive advantage and increased market share in a competitive environment is rather complex in several aspects as businesses would need to operate with distinguished principles and characteristics in order to continually adapt to change.

Competitive strategies have been classified into three types: cost reduction, innovation and quality-enhancement (Schuler and Jackson, 1987). It has been argued that all three strategy types can be used simultaneously to gain domestic and international competitive advantage, regardless of industry. Others argue that there is only one essential factor in determining a competitive advantage – i.e. the ease with which competitors can enter or expand in a given market (Greenwald and Kahn, 2005). If a company can erect strong barriers to entry, through customer captivity, lower production costs, or economies of scale, it can manage these advantages, anticipate competitors' moves, or achieve stability through bargaining and cooperation. It is claimed that addressing barriers to entry is by far the most important activity in business strategy, and avoiding competition is the only way to escape an open playing field in which only the best survive and prosper. Regardless of what strategy is implemented and used, the strategy has to be understood by employees at all levels of the company. This, in turn, leads to the customers understanding what the company stands for. Since strategy is about being different, the company's strategy must become a cause. While businesses think in terms of products and derived values, the customer is looking for satisfaction. Whether a firm operates globally or not, the ability to collect and analyze early signals indicating a competitor's future actions is the key to maintaining a competitive advantage (Trim and Lee, 2008).

Customer Relationship Management

During the 1990s, many organizations and consumers experienced great movements and actions. Some key environmental factors provided the setting whereby companies changed their attention and orientation toward marketing and the consumer. Companies have recognized the fact that they must change and restructure their way of establishing and maintaining business relationships. For example, many manufacturers discovered, or more adequately, re-discovered that close relationships with customers are invaluable with constantly changing technology and increasing global competition.

Today's businesses are facing fierce and aggressive competition while operating in both a domestic and a global market. Most managers and marketers would of course agree that establishing long-term business relationships with customers is about development and survival. According to Lewis (1991), the world has never been so interdependent. All trends point to cooperation as a fundamental, growing force in business. Relationship marketing is a concept reflecting a number of differing themes or perspectives. Some definitions of relationship marketing are: Relationship marketing is attracting, maintaining and in multi-service organizations-enhancing customer relationships (Berry et al., 1983). According to Christopher *et al.* (1991). The relationship marketing concept is emerging as a new focal point, integrating customer service and quality with a market orientation.

Zineldin (1995) defined a business to business (B2B) relationship as a dynamic link between at least two parties operating within a given industry and expecting mutual benefits from each other. The behavior and activities of one partner are always more or less dependent on the outcome of those of others. It is a highly adapted relationship and involves a complex pattern of interaction. The interaction includes business and social exchange. The quality and nature of the relationship depends on the quality of the interaction process. This relationship may involve cooperation as well as conflict between the two parties (Zineldin, 1995a). Indeed, this definition is relatively comprehensive. It includes the key issues or factors of establishing and maintaining a customer relationship: the relationship reflects the dynamic nature of today's market environment; the involved parties have mutual positive expectations from such a relationship; the interdependence is an important condition; the emphasis on the adaptation is also an important factor; and the quality and nature of the relationship depends on the quality of the interaction process and its contents (e.g. prodserv social, financial and information).

Relationship management, however, emphasizes the organization of marketing activities around cross-functional processes as opposed to organizational functions or departments. This results in a stronger link between the internal processes and the needs of customers and results in higher levels of customer satisfaction.

Quality Management

Quality management has attracted much interest among researchers and academics as evidenced by a large number of articles and research papers that have appeared in the literature (Rahman, 2002). Many of them have focused on the philosophy of quality management and its impact on firm's competitive success and have identified quality management as the key driver of business performance (Arumugam et al., 2009). Mandel et al. (2000) noted the significance of quality as a factor of international competitiveness. A large number of organizations in the developed countries such as the United States, Australia, Japan, and Singapore have adopted total quality management (TQM) or some kind of quality management (Davis and Fisher, 1994). A successful TQM aims at improving a business as a whole and it involves every person in every part of an organisation working to remove error and prevent waste (Bricknell, 1996). The literature also emphasises that one of the fundamental principles of TQM is to get things right first time by taking multiple approaches such as continuous improvement, statistical measurement and having a mentality of zero-defects.

The successful implementation of TQM is expected to lead to a number of benefits such as lower costs, better product quality, greater efficiencies, improved market share, better reputation, increased motivation and satisfaction (Bricknell, 1996). This view is consistent with the findings of Powell (1995) in which he suggested that certain features of TQM such as open culture, employee empowerment and executive commitment are associated with business performance. Anderson and Sohal (1999) investigated the relationship between quality management practices and performance using data from 62 small and medium size businesses in Australia. Their research found a number of significant relationships between quality management practices and subjective measures of organisational performance. A survey of manufacturing firms in the United States (n=290) found that the relationship between quality management practices and performance (customer satisfaction, marketing and financial) is contingent on the degree of international competition present in the business environment (Das et al., 2000). Sterman et al. (1997) found that programs like TQM can present firms with a trade-off between short and long run effects. In the long run, TQM can lead to quality and productivity improvement.

The Kenyan Banking Industry

The Kenyan Banking sector has demonstrated a solid growth over the past few years. The industry continues to offer significant profit opportunities for the major participants. Banks generally earn their revenues from taking in funds and lending them out at a higher rate. The Kenyan Banking Sector Report (2007) reveals the following information: The spread between deposits and loans continues to be around 8.5%, offering much profit potential. Profit after tax of the overall banking system increased by 38.61%, or Kshs 5.08 billion, from Kshs 13.15 billion in December 2005 to Kshs 18.22 billion in December 2006. This growth is a continuation of the strong growth in profit after taxes that the industry has achieved for the past several years. The increase in profit reflected an increase in interest income on loans and advances, which rose by 14.36% or Kshs 5.51 billion to Kshs 43.9 billion in December 2006 from Kshs 38.39 billion in

December 2005, the increase in interest income was due to the growth of 16% in loans given out, the rate on loans in the industry has been stable at an average of 11%.

There are forty-three commercial banks in Kenya (see appendix II). Thirty-five of the banks, most of which are small to medium sized, are locally owned. The industry is dominated by a few large banks most of which are foreign-owned, though some are partially locally owned. Six of the major banks are listed on the Nairobi Stock Exchange. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and addresses issues affecting member institutions. The commercial banks and non-banking financial institutions offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking.

1.2 Research Problem

Customer relationship management utilizes customer related information or knowledge to deliver relevant products or services to customers (Levine, 2000). In today's competitive business environment, a competitive market position and a good reputation of a company can quickly translate into market share and profit, but that distinction is often earned only through a philosophical commitment to service backed by diligent attention to what customers want and need (Zineldin and Bredenlo 2001). Unlike manufacturing and some service industries, bankers are not only selling products and services; they are also selling their organization reputation with every customer relationship. Most managers and marketers would of course agree that establishing long-term business relationships with customers is about development and survival. In an era with intense competition, the need for providing adequate product/service quality dictates the bank to focus attention on issues of improving, measuring and controlling their product/service quality and efficiency. Organizational performance can be measured using subjective measures of performance that tap into managements' perceptions of the effects of quality management on overall performance, the firm's competitive position and the nature of the impact of quality management on the organization.

With increasing number of banks in Kenya competing for market share. it is imperative that they improve their products/services to match customers' needs and requirements while still remaining competitive and profitable. It is also of great importance hat banks enhance their reputation by establishing good customer relationship. Several studies have been done in Kenya in relation to quality management and customer relation marketing, for example, Oduori (2006) studied application of customer relationship marketing strategies by classified hotels in Nairobi, Mbobua (2007) studied customer perceived quality of service in the banking sector in Kenya, Gachie (2008) conducted an evaluation of service quality in Kenyan Commercial Banks, Kandie (2002) carried out an investigation of customer's perception & expectation of quality service within selected banks in Kenya and Musyoki (2003) investigated the relationship between quality improvement and financial performance for commercial banks in Kenya.

None of the studies conducted in Kenya has focused on a comparative analysis of quality management and customer relationship management as a competitive strategy in the banking industry in Kenya. This study will seek to bridge this knowledge gap by establishing the relationship between product/service quality, customer relationship and competitiveness in the banking industry in Kenya. To achieve this objective the study seeks to answer the following question: What is the relationship between product/service quality and competitiveness in the banking industry in Kenya? What is the relationship between customer relationship management and competitiveness in the banking industry in Kenya? What is the effect of interaction between quality and customer relationship management on the competitiveness of banks in Kenya?

1.1 Research Objectives

i) To determine the benefits and impacts of QM and CRM in the banking industry in Kenya.

ii) To establish the relationship between customer relationship management and competitiveness in the banking industry in Kenya.

iii) To determine relationship between service quality management on the competitiveness of banks in Kenya.

1.5 Value of the study

The findings on the relationship between product/service quality, customer relationship and competitiveness in the banking industry will be of immense importance to the entire management of banks in Kenya. Through the recommendations made by the study, bank managers will enhance the quality of products and services and build good customer relationship to remain competitive.

The findings of the study will greatly contribute to the existing literature on quality management and customer relationship management. Researchers and academicians will therefore benefit from the findings of this study which will serve as reference for future studies on quality management and customer relationship management.

CHAPTER TWO: LITERATURE REVIEW

2.1 Customer Relationship Management (CRM)

Customer relationship management is a highly fragmented environment and has come to mean different things to different people (McKie, 2000). One view of CRM is the utilization of customer related information or knowledge to deliver relevant products or services to customers (Levine, 2000). While such definitions are widespread, they tend to offer a narrow insight into the goals or basic characteristics of CRM. As CRM evolves, richer definitions are emerging, with an emphasis on the goals, logistics and complex character of CRM. According to Light (2001), CRM evolved from business processes such as relationship marketing and the increased emphasis on improved customer retention through the effective management of customer relationships. Relationship marketing emphasizes that customer retention affects company profitability in that it is more efficient to maintain an existing relationship with a customer than create a new one (Payne et al., 1999). The idea of relationship marketing within CRM is fairly strong and has led others such as Newell (2000) to explore strategic methods for maintaining or improving customer retention.

Another view of CRM is that it is technologically orientated. Sandoe et al. (2001) argue that advances in database technologies such as data warehousing and data mining, are crucial to the functionality and effectiveness of CRM systems. For example, Fingerhut has four million names of repeat customers, each with up to 1,000 attributes, stored in a data warehouse that can hold 4.5 trillion bytes (Davenport et al., 2001). Furthermore, Peppard (2000) suggests that technological advances in global networks, convergence and improved interactivity, are key to explaining the growth of e-business and CRM. The increasing use of digital technologies by customers, particularly the Internet, is changing what is possible and what is expected in terms of customer management (Tamminga and O'Halloran, 2000). The appropriate use, for instance, of automation technologies, such as interactive voice response systems and Web-based frequently asked question pages, could be popular with customers and highly cost effective (Petrissans, 2000).

Customer relationship management normally involves business process change and the introduction of new information technology, consequently effective leadership is important (Galbreath and Rogers, 1999). Because leaders monitor the external environments of an organisation they are often the best placed to set the vision or strategic direction for CRM projects. In addition, leaders are influential in the authorization and control of expenditure, the setting and monitoring of performance and the empowerment and motivation of key personnel (Pinto and Slevin, 1987). As CRM reaches into many parts of the business it has been suggested that organisations should adopt a holistic approach (Girishankar, 2000). The holistic approach places CRM at the heart of the organization with customer orientated business processes and the integration of CRM systems. Ciborra and Failla (2000) conceptualise CRM beyond a front office contact management system. For others, CRM goes further, to constitute operational, analytical and collaborative elements (Trepper, 2000). Holistic approaches to CRM help organisations co-ordinate and effectively maintain the growth of disparate customer contact points or channels of communication. However, problems of channel conflict have been identified whereby customer experiences differ depending on the sales channel (Peppard, 2000).

Another implementation issue is that of sourcing. Many organisations have few alternatives but to outsource a significant proportion of their CRM solution as they lack the resources to develop CRM software. According to MacSweeney (2000) 60 per cent of in-house CRM systems fail. Timing is also important, as developing CRM software in-house can be a lengthy process and there are rewards to those that can respond rapidly and appropriately (Howle, 2000). CRM is also reputed to be facilitating the outsourcing of more business operations directly to the customer, highlighted by the UPS customer self-tracking system with annual savings of US$164 million (Hamm and Hof, 2000) and by the enormous savings in Internet banking (Downes and Mui, 1998).

According to Newell (2000) CRM is a useful tool in terms of identifying the right customer groups and for helping to decide which customers to abandon. Clemons (2000) estimates there may be a tenfold difference between the most profitable customers and the average. The idea that you cannot have a profitable relationship with all customers and the practice of targeting customers with a differentiated product or service is already widespread in many financial services, e.g. banking, insurance, credit cards etc. It is less established in many other business sectors such as manufacturing. One method for identifying customer groups is the notion of distinguishing between transaction and relationship customers. Transaction customers are highly volatile and have little loyalty, other than that related to obtaining the best price. Relationship customers have far more potential for loyalty as they are often prepared to pay a premium price for a range of reliable goods or services (Newell, 2000). Once relationship customers are recruited they are less likely to defect, provided they continue to receive quality service. Relationship customers are also more cost effective than new customers because they are already familiar with, and require far less persuasion to buy the company's products or services. Peck et al. (1999) are among those who argue that for many organizations it would be beneficial to distinguish between the two types of customer and focus on relationship customers.

Another dimension is the ability to deliver the strategy successfully. CRM strategies are only effective if they deliver positive outcomes. It is no longer good enough just to say that you are customer focused, but it matters what you do. Newell (2000) discusses a range of CRM case studies that used customer knowledge to deliver relevant products and services. Blockbuster recognized that their customer's top priority was the ability to rent their first-choice movie, when they visited a store. The industry norm for achieving this customer service was around 80 per cent. The company implemented an information system called "Centre stage" to improve stock availability of first-choice titles.

At present time, the sense of competitiveness is a key issue all over the world, and it is regarded as a means of accessing an ideal economical growth and permanent improvement (Recheld, 2004). An organization has a competitive advantage when it has a better performance than that of its competitors and it meets customers' needs with the non-competitive advantage and benefits with the same cost. The influence of customer relations management on the organizational performance is a prominent subject in most experimental studies and conducted studies indicates direct relations between both (Gank, 2000). Customer relations management is a lawful marketing process by which organization establishes a better foundation for providing the service and meeting customers' satisfaction.

Financial services in all markets, including emerging markets, are undergoing major transformation, driven by change, deregulation and customer sophistication. Customer relationship management is a managerial philosophy that seeks to develop and maintain a mutually beneficial long-term relationship with strategically significant customers in a competitive environment (Buttle, 2000). Customer relationship management is crucial to attaining a sustainable competitive advantage in the marketplace. Dwarkanath (2006) noted that the purpose of CRM is to improve marketing productivity by increasing marketing efficiency. In CRM marketing efficiency is achieved because collaborative and cooperative processes help in reducing transaction cost and overall development of costs for the firm. Benefit s of CRM include, cost reduction, enhancing sales revenues, increasing productivity, enhancing profit margin and enhancing customer value and satisfaction (Dwarkanath 2006).

Each organization begins its work with attracting the customer and develops with the specializing and solving complaints.CRM is a transfer toward the customer based economy in which the main element is a customer. In this economy, CRM helps the organization to find out which customer has the value of gaining, and which customer has the value of keeping and protecting, which one has the value of profitability, while other customers should be ignored. In order to develop, the relationship with the customer individually or through the network, to access the most valuable customer, the customers and their groups should be identified (Hoots,2005).

2.2 CRM measurement tools and frameworks

Academics and professionals proposed frameworks in order to measure CRM. The following proposed methods are categorized in ten groups according to their common understanding of CRM and the measurement process: Indirect measurement models, Measurement of customer facing operations, Critical success factors scoring (CSFS), Behavioral dimensions of CRM effectiveness, CRM scale, Relationship quality (RQ), Customer measurement assessment tool (CMAT), Customer management process (CMP), Relationship management assessment tool (RMAT) and CRM scorecards (CRM-SC).

In indirect measurement models, CRM is measured by brand building or customer equity terms and methods (Kellen, 2002; Richards and Jones, 2008). It is rational to believe that the components of brand equity; brand loyalty, brand awareness, perceived quality and brand associations (Aaker, 1991); are related to CRM activities. On the other hand, customer equity is broken down into three groups; value equity, brand equity and retention equity and researchers defined the relations between each component and CRM (Richards and Jones, 2008). During measurement of customer facing operations, as the importance of information and information management increase, CRM software collect data from customer facing activities, consolidate the data and share within the company. These operational CRM systems automate customer-related processes that why companies evaluate process metrics in order to measure the success of CRM (Kellen, 2002).

Critical success factors scoring (CSFS) is another CRM measurement tool. The tool proposed by Mendoza et al. (2007) uses critical success factors as the basis for scoring. The model is improved with the contribution of a group of advisors that is formed by both professionals and academicians. There are 13 critical success factors, and over 50 metrics defined in the model. Owing to the variety in the nature of the factors and the metrics, the model also provides the options for each metric. Jain et al. (2003) identify the need for a tool that focus on behavioral dimensions for measuring the CRM effectiveness. Behavioral dimensions are defined in ten factors that are: attitude, understanding expectations, quality perceptions, reliability, communication, customization, recognition, keeping promises, satisfaction audit and retention.

The CRM scale proposed by Sin et al. (2005) conceptualizes CRM in four dimensions which are: key customer focus, CRM organization, knowledge management and technology based CRM. Key customer focus is the dimension that emphasizes the customer centric marketing, personalization and communication between the company and the customers. CRM organization focuses on organizational structure, commitment of resource, human resource management. Knowledge management highlights the creation, transfer and application of the knowledge in a company. The last perspective, technology-based CRM stresses the companies' technology availability.

In, Relationship quality (RQ), the quality of relationship between the customer and the vendor has been in the interest area of researchers (Lagace et al., 1991; Kumar et al., 1995; Dorsch et al., 1998). The aim of RQ measurement models define and measure the issues that compose customers' perception about the relationship. The models are based on statistical studies and utilize a survey as a measurement tool. Roberts et al. (2003) identify he dimensions of RQ in consumer services as; trust in partner's honesty, trust in partner's benevolence, affective commitment, satisfaction and affective conflict (negative relation).

Customer measurement assessment tool (CMAT) was developed as a customer assessment tool that considers a questioner composed of 260 questions. The questions and the scoring of the tool are based on the best practices of each category (Starkey et al., 200?). The tool defines nine crucial areas of customer management assessment that are: information technology, people and organization, process, analysis and planning, the proposition, customer management activity, measuring the effect, customer experience and competitor (Woodcock et al., 2003). On thev other hand, Customer management process (CMP) is a part of balanced scorecard (BSC) (Kaplan and Norton, 1992) is one of these processes that focus on customer management. The four sub-processes of this category is defined as; customer selection, customer acquisition, customer retention and customer growth. For each sub processes, companies define objectives and metrics that are used for measurement. CMP is a not a fixed measurement model, depending on companies strategies and goals, the objectives and the measures should be identified for each company.

Relationship management assessment tool (RMAT) is an assessment tool generated by Lindgreen et al. (2006), aims to help managers to make self-assessments about the stages of relationships. The elements analyzed in RMAT are; customer strategy, customer-interaction strategy, brand strategy, value-creation strategy, culture, people, organization, information technology, relationship management process and finally, knowledge management and learning.

CRM scorecards (CRM-SC) are the CRM performance measurement models that are based on BSC. In the CRM-SC, the main dimensions are defined, the elements in each dimension are identified and a map that specifies the relationship between the dimensions and the elements are maintained (Kim et al., 2003; Kim and Kim, 2009).

2.3. Quality Management

Issues concerning service quality appear in a variety of literature, in particular Totral Quality Management (TQM), areas of service marketing, including internal marketing and the study of service quality gaps – the conceptualization of service quality as the gap between customer expectations and perceptions of performance. Within the TQM literature, the soft aspects of TQM have been seen as vital to the service sector (Collinson et al., 1998), work on internal marketing has highlighted its role as a means to developing a service culture and to encouraging quality service delivery (Hogg et al., 1998), and from the service quality literature, the study of service quality gaps has also contributed to the debate on the improvement of service quality (Zeithaml and Bitner, 2000). In the three areas, it has been acknowledged that there are certain similarities between TQM and internal marketing (Rafiq and Ahmed, 1993), and because internal marketing is referred to as the strategies to close the differences between customer driven service designs/standards and service delivery as one of the service quality gaps (Zeithaml and Bitner, 1996).

Quality management is well established in business today. Substantive amounts of research have detailed its effects on companies and contributed to its development. High quality of goods and services is usually considered to be crucial for regional and national competitiveness (Bergman and Klefsjö, 1994). Ishikawa emphasised the value of quality management for the development of the society and the interaction between society and industry (Ishikawa, 1985). He even sees quality management as a means of bringing peace to the world. Societal aspects are also hinted at in research concerning the core values of quality management (Hellsten and Klefsjö, 2000) and the relations with the customers (Lagrosen, 2001).

There are features which are most crucial in supporting service quality. These features include: recruitment and selection; training, teamwork; empowerment; performance appraisals and reward (including measurement and recognition); communication, and culture of the organization (Gunasekaran, 1999). Each of the features is argued to be critical for the management of service quality, and all three areas of literature are concerned with the search for service excellence in a wide range of service industries. Hence, the following practices could be seen as the predominant attributes in the promotion of service quality: recruitment and selection; training; empowerment, teamwork, performance appraisals and reward, communication and culture of the organization.

Recruitment and selection of the best possible personnel have been seen as vital in order to deliver service quality (Zeithaml and Bitner, 2000) since a major cause of poor service quality is that the wrong people are recruited (Berry and Parasuraman, 1992). It is commonly acknowledged that staff turnover in many service organisations is very high (Campbell et al., 2000). Yet, staff retention should be maintained, because low staff turnover tends to produce superior service quality (Schneider and Bowen, 1985).

Training and teamwork is clamed to be one of the essential features for improving quality and to deliver service quality competently and confidently (Perry, 1995). Since poor training is one of the reasons for a lack of quality in human service (Joseph, 1996), and training will be able to minimise the risk of service failure. Teamwork is often seen in the academic literature as a means of supporting willingness to deliver service quality (Berry and Parasuraman, 1992). Through support from team members, motivation for providing quality service is likely to continue (Zeithaml and Bitner, 1996), and effective teamwork tends to develop capabilities for delivering a high level of service quality (Tjosvold et al., 1999). Other studies have found that weak service performance is strongly associated with a lack of teamwork; hence, service failure can be minimized by team working (Redman and Mathews, 1998). When effective, a team tends to develop employee commitment towards customer service, and the capability of delivering a high level of service quality (Tjosvold et al., 1999).

Empowerment of front-line staff could be fundamental to achieving and improving the level of service quality (Rafiq and Ahmed, 1998). Since different degrees of empowerment are applicable to different services (Lashley, 1998), it is possible to achieve a high level of service quality from a medium degree of empowerment. Therefore, the association between service quality and empowerment may not be straightforward. It is not necessarily the case that the higher empowerment, the higher service quality.

It has been argued that management does not have direct control over quality during the production of the service or over service employees' behaviour and hence, performance appraisals and reward which give the right directions to the workforce become more critical in the service sector(Grönroos, 1990). Performance appraisals could give direction to the workforce via communicating managerial expectations to employees and top management could guide employees' behaviour via rewarding and recognising outstanding employee behavior (Palmer, 2001). Although some authors address negative effect from appraisals and reward when designed carefully and administered appropriately, these techniques will have a positive effect on quality (Redman and Mathews, 1998) by identifying employee's desirable performance and setting up a reward system linked to customer satisfaction (Palmer, 2001).

Communication is regarded as critical in supporting service quality. Downward communication enables employees to deliver what customers expect from the company (Zeithaml and Bitner, 2000). Upward communication allows employees to provide management with information about customers (Grönroos, 2000). It also enables front-line staff to articulate what they need in order to meet customers' requirements (Grönroos, 2000). Therefore, a lack of communication will result in frustration when important information is not transferred and which in turn could cause customer dissatisfaction and poor service quality (Ingram and Desombre, 1999). Moreover, communication maintains employees' motivation and interest which in turn will lead to their commitment to the firm and to service quality (Zeithaml and Bitner, 1996).

A strong culture which enhances customer/service orientation and an understanding of service quality is identified as crucial for the successful management of quality (Grönroos, 1990). It has been argued that organizational culture or a service-oriented culture has a powerful impact on employees' behaviour/service delivery. Employees' behaviour is critical for delivering quality services. This is because employees' behaviour/service delivery affects customer perceptions of the service quality which they receive (Bowen et al., 2000). Moreover, management in the service sector do not have direct control over quality nor over service employees' behavior, so a strong service-oriented culture which truly inspires employee behaviour can give guidelines for right and proper behaviour toward customers (Zerbe et al., 1998).

Quality is the most important performance objective as it has a direct impact on the other objectives as well (Magutu *et al.*, 2010). From an external or customer perspective, good quality means customer receives the product as he/she expects and has less or nothing to complain about the product. On the other hand from an internal perspective good quality implies that conformance is high in all operations and there is little mistakes meaning that there is improved dependability and speed of production as well as reduction in costs. Specific quality metrics (Bowersox et al, 2003) would include damage frequency, order entry accuracy, picking/shipping accuracy, document/invoicing accuracy, information availability/accuracy, number of credit claims, number of customer returns. Quality management methodologies for example Total Quality Management (TQM), Six Sigma and process improvement techniques like the Japanese Kaizen, Lean, Total Productive Maintenance (TPM) among others focus on improving existing process whereas business process reengineering (BPR) brings about completely new processes (Magutu *et al.*, 2010)..

An organizations' competitiveness can be brought about by aiming at giving good value at low cost and still achieve a satisfactory return (Kenduiywo, 2005). In analyzing quality, one must look at both product qualities as well as process quality (Chase *et al.*, 2003). The product quality is achieved by design and is engineered to meet the target customer requirements. Process quality on the other hand ensures that the end product does not have any defects and therefore meets customer expectations. Timeliness can be broken into three categories namely delivery speed, delivery reliability, and product development speed (Chase *et al.*, 2003). Speed as a competitive dimension requires that one makes the desired product or provides the desired service very quickly be dependable and also develop new products very fast relative to the competition. Flexibility refers to the ability to change the product's volume, variety and nature (Chase, et al., 2003). An organization that can change its product volume depending on demand or offer many other range of products and also be able to customize the product to the customer specification will gain competitive advantage over its competitors who have lesser flexibility in these dimensions.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter will deal with the research design methodology that will be used in the study. The chapter will be organized into subheadings which include research design, target population, sampling design, data collection and procedures and data analysis.

3.2 Research Design

This study will adopt a descriptive survey research design. A descriptive research is a process of collecting data in order to test hypotheses or answer questions concerning the current status of the subjects in the study (Mugenda and Mugenda, 1999). They point out that the purpose of a descriptive research is to determine and report the way things are done.

Descriptive research obtain information concerning the current status of a phenomenon in order to describe what exists with respect to variables or conditions in a situation. Descriptive surveys also provide details of interest at a single point in time. This research designed has been adopted for the study because of the need to collect cross sectional data and to conduct comparative study.

3.3 Population of Study

The population of study consists of all the 43 registered commercial banks in Kenya as according to CBK (2011) (see appendix II). The target population will involve he IT manager, General Manager, Marketing manager and the Public Relation manager from each bank. Therefore the study will involve 172 respondents in the data collection.

3.4 Data Collection

The study will target the managers in charge of customer relationship management at the headquarters of commercial banks in Nairobi, Kenya. The study will consider all the 43 commercial banks in Kenya. The study will focus on the managers in charge of customer relations because they directly deal with the day to day management of the bank and they are the ones conversant with the customer relations of the banks.

The data will be collected using a questionnaire. The questionnaire will consist of three parts. Part A will capture data on organizational profile, part B will focus on customer relations strategies while part C will address service quality. The questionnaires will include structured (close-ended) and unstructured (open-ended) questions so as to evoke responses that comprehensively meet objectives of the study and will be administered to the respondents through drop and pick method.

3.5 Data Analysis

The collected data will be thoroughly examined and checked for completeness and comprehensibility. The data will then be summarized, coded and tabulated. Descriptive statistics such as means, standard deviation and frequency distribution will be used to analyze the data. Data will be entered into the Statistical Package for Social Sciences (SPSS) for analysis. SPSS will be used to perform the analysis as it aids in organizing and summarizing the data by the use of descriptive statistics. Data presentation will be done by the use of pie charts, bar charts and graphs, percentages and frequency tables.

CHAPTER FOUR: ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

The purpose of the study was to investigate how Quality and Customer Relationship Management (CRM) acts as a competitive strategy in the banking industry in Kenya. The target population was the whole population of the different types of banks operating in Kenya. These included the commercial, investment and the retail banks. The respondents were the Customer relations mangers in the respective banks. Booking of appointment to the respondents was crucial in order to have ample time for filling and completing the questionnaire. The availability of the respondents and their contributions into this study was undisputable. Data collection was therefore meant to collect the first hand information (quantitative data) that was used in the analysis of the study. This chapter provides the major findings of the study and discussion on them. The data is presented in tables.

4.2 Type of Bank Ownership

This study focused on three categories of banks operating in Kenya that is the retail, commercial and the investment banks. The responses from the commercial banks was relatively higher (82.4%) as compared to the other banks (11.8%) and (5.9%) for the investment and retail banks respectively (see the table below). It was also realized that the youngest bank was 2yrs, and the oldest were more than 100 years old operating in 10-100 branches across the country.

Table 4.1: Distribution of Banks by Ownership

Ownership	Frequency	Percent
Locally owned	6	37.5
Foreign owned	10	62.5
Total	16	100.0

From the study findings illustrated in table 4.1 above, most the banks had foreign ownership as shown in table below. 62.5% of the banks were foreign owned as compared to 37.5% that were locally owned.

4.3 Customer Relationship Management

The researcher sought to investigate the benefits of customer relationship management in the different types of banks Kenya. The findings were evaluated according to the extent of experiences in the banks. This evaluation was done by rating the responses on a scale of 1-5 whereby 1 represents no extent at all, 2 little extent, 3 moderate extent, 4 great extent and 5 very great extent. The mean and standard deviations of the findings were computed and presented as shown in table 4.2 below.

Table 4.2: Customer relationship management

	Mean	S. Deviation
Customer relationship management strategies have led to increase in investment in the bank	4.470588	0.514496
Customer relationship management plans have promoted good corporate image of the bank	4.764706	0.437237
Customer relationship management have led to better understanding of customers need	4.764706	0.562296
customer relationship management has encouraged good service delivery to the customers of the bank	4.705882	0.469668
Establishment of long-term business relationships with customers has contributed to better financial performance in the bank	4.764706	0.437237
Customer relationship management plans have increased customer loyalty	4.5625	0.512348

According to the findings presented in table 4.2 above, customer relationship management strategies have led to increase in investment in the bank (M=4.470588, SD=0.514496). CRM influence on the good corporate image of the bank is rated (M=4.764706, SD=0.437237). The banks are able to understand their customers' needs (M=4.764706, SD=0.562296). Good service delivery to the customers by the banks has been enhanced (M=4.705882, SD=0.469668). Establishment of long-term business relationships with customers has contributed to better financial performance in the banks (M=4.764706, SD=0.437237). Customer loyalty has also been improved due to the fact that banks have adopted CRM (M=4.5625, SD=0.512348).

4.3.1 Impact of customer relationship management

The study also sought to evaluate the impact of CRM on the performance of the banks. The information was gathered from factors, for instance, the attitude of the customers, reliability of the banks, customer retention, meeting the customers' needs and also the efficiency in communication between the banks and its customers. Means and standard deviations were computed and presented in the table 4.3 below.

Table 4.3: Impacts of CRM

Impacts of CRM	Mean	S. Deviation
Attitude of the customers towards the bank	4.470588	0.624264
Bank's understanding of customer expectations	4.647059	0.606339
Improved quality perceptions	4.647059	0.606339
Increased reliability	4.529412	0.71743
Increased communication	4.875	0.341565
Increased customer retention	4.529412	0.514496

The findings in table 4.3 show that attitude of the customers towards the banks has greatly improved (M=4.470588, SD=0.624264). The banks' understanding of customer expectations has been greatly enhanced (M= 4.647059, SD=0.606339) while the customers' perceptions of the quality of the banks' services has been improved to a great extent (M= 4.647059, SD=0.606339). Others factors such as the reliability of the banks (M=4.529412, SD=0.71743), efficiency in communication (M=4.875, SD=0.341565), customer retention (4.529412, SD=0.514496) have been greatly supported in the banks due to the adoption of CRM strategies.

4.4 Service Quality Management (SQM)

This study sought to investigate the impacts of CRM in the service quality management in the banks. The means and standard deviations on the views given by the respondents were computed. The study findings are illustrated in table 4.5 below.

Table 4.5: Impact of SQM on the competitiveness of the banks

Impacts of SQM	Mean	S. Deviation
Increased return on investment	4.235	0.4372
Increased loan repayment	4.176	0.8089
Availability of sufficient fund to support business operation	4.000	0.7905
Increased profit margins	4.117	0.8574
Increased efficiency in service delivery	4.647	0.4925
Increased customer satisfaction	4.672	0.4925

The study findings in table 4.5 above indicated that CRM has a great impact on competitiveness of the banks by increasing customer satisfaction (M=4.672, S.D.=0.4925), increasing efficiency in service delivery (M=4.647, S.D.=0.4925), increasing return on investment (M=4.235, S.D.=0.4372), increasing loan repayment (M=4.176, S.D.=0.8089), increasing profit margins (M=4.117, S.D.=0.8574) and availability of sufficient fund to support business operation (M=4.000, S.D.=0.7905). The study findings reveal that service quality management enhances competitiveness of the banks.

4.4.1 Benefits of service quality management in banking

The researcher needed to evaluate the benefits that are associated with efficiency in QM in banking services. The respondents were required to show the extent to which their banks have benefited from the QM. The scale of 1-5 was applied to determine the mean and standard deviations of their views. The findings presented of the study are presented in table 4.6 below.

Table 4.6: Benefits of service quality management in banking

Benefits of SQM	Mean	S. Deviation
Lower costs of operation	4.058	0.9663
Better product quality	4.364	0.4925
Greater efficiencies	4.470	0.5144
Improved market share	4.225	0.5622
Better reputation	4.352	0.7018
Increased employee motivation	4.235	0.7524
Increased customer satisfaction	4.317	0.7812

From the study findings in table 4.6 above, quality management greatly benefit banks by providing greater efficiencies of banking services (M=4.470, S.D.=0.5144), enabling provision of Better product quality (M=4.364, S.D.=0.4925), creating a better reputation of the bank (M=4.352,m 0.7018), increasing employee motivation (M=4.235, S.D.=0.7524), increasing customer satisfaction (M=4.317, S.D.=0.7812), increasing employee motivation (M=4.235, S.D.=0.7524) and improving market share (M=4.225, S.D.=0.5622). The study findings reveal that service quality management is beneficial to banks.

4.4.2 SQM and overall competitiveness of the banks

There was a thought that competition among the banks was associated with improvement in QM. The study evaluated this factor and it was found that the phenomenon has promoted to the overall competitiveness among the banks to a very great

Table 4.7: SQM and overall competitiveness of the banks

	Frequency	Valid Percent
Great extent	8	47.1
Very great extent	9	52.9
Total	17	100.0

From the study findings in table above, majority of the respondents (52.9%) were of the view SQM has influenced overall competitiveness of banks to very great extent while the rest (41.7%) of the respondents rated the influence as great. The findings reveal that SQM is one of the factors that encouraged competition among the banks in Kenya.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study aimed at investigating how Quality and Customer Relationship Management (CRM) acts as a competitive strategy in the banking industry in Kenya. The target population was the banks in Kenya specifically commercial banks, retail banks and the investment banks. The responses was relatively higher (82.4%) from the commercial banks as compared to the other banks (11.8%) and (5.9%) for the investment and retail banks respectively. A higher percentage of the banks (62.5%) were foreign owned as compared to 37.5% that were locally owned.

The study sought information about Quality and Customer Relationship Management by evaluating their influences in the banking whereby the benefits and impacts of the phenomena were investigated. The findings imply that CRM has a great impact on the customers' behavior, for instance their attitude towards the bank is greatly improved, the Bank's understanding of customer expectations is greatly enhanced, while the customers' perceptions on the quality of the banks' services is changed. These include other factors such as the reliability of the banks, efficiency in communication, customer retention are also greatly supported in the banks due to the adoption of CRM strategies. The benefits which are greatly realized in the banks due to effective SQM are for instance lower costs and efficiency in operation, improvement in product quality, improved market share, better reputation, and increased customer satisfaction. It was also found that both SQM and CRM promote to a great extent in the competition among the banks.

The main challenge experienced in the study was the inaccessibility of the respondent thought the necessary arrangement on appointments were made before the study done. However the response rate across the various types of banks targeted was adequate for the analysis of the study.

5.2 Conclusion

The findings of this study fulfilled the specific objectives of the study. The banks have realized more benefits and impacts in the adoption of SQM and CRM which play a great role in the maintenance of competitive advantage in the banking sector. There is a clear relationship between the SQM & CRM and the performance of the banks in Kenya which greatly influences the extent of competition among the banks.

5.3 Recommendations

The study posits that in order to enhance competitive strategies in the banking industry, several measures need to be taken by the banks in QM. These include;

- Quality and CRM should be clearly defined in terms of the expectations and target setting models of the banks. This would enable the banks to focus on their specific objectives in the implementation and maintenance of the competitive advantage.
- Human resource training and development should be involved in CRM to encourage its effectiveness.
- Good governance and transparency would promote QM and CRM thus retained competitive advantage.
- Enhanced relationship between the bank and its customers would bring in advanced customers' service treatment.
- New and value adding products should be added to the existing banks' products to allow healthy customers' choices on the banking needs.
- Ascertaining and acting promptly on the customers grievances and their constantly changing banking needs should be supported
- More interaction between the customers, staff and top management of the banks should be improved and encouraged in order to gather customers' views, analyzed and implemented them.

- Staff motivation should be increased to enhance their involvement in providing quality services.

- Customers should be engaged in rating the banks' performance in customers service delivery.

- Interactions with other market players in the banking sector should be encouraged to allow for sharing of relevant information aimed at improving customer services in the banks.

5.4 Area for further study

There is need to carry out a further study on the challenges facing the adoption of services quality management in the banking industry which would help to explain why banks have varied performance levels and difference in the customer perception toward their services.

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APPENDICES

Appendix 1: Questionnaire

RE: PARTICIPATION IN RESEARCH

I am a postgraduate student pursuing my master degree in Business Administration at the University of Nairobi and conducting a research entitled "A Survey of Quality and Customer Relationship Management (CRM) as a Competitive Strategy in the Banking Industry in Kenya" as one of the major requirements.

In this regard, you have been selected to take part in this study as a respondent. Kindly respond to all items to reflect your opinion and experience. Please answer all the questions freely. You will not be identified from the information you provide and no information about individuals will be given to any organization. The data collected will be used for this academic research only.

Your participation is important for the success of this project and I greatly appreciate your contribution.

Yours Sincerely,

Michael K. Kyambati

PART A: BANK'S PROFILE

1. Please provide responses to the questions below.

a.	Type of bank	Retail banks [ ] Commercial banks [ ] Investment banks [ ]
b.	Ownership of the bank	Locally owned [ ] Foreign owned [ ]
c.	Duration of existence	
d.	Number of Branches	

PART B: CUSTOMER RELATIONSHIP MANAGEMENT

2. To what extent do you agree with the following statements regarding customer relationship management? Tick appropriately using a likert scale of 5 where 5= Very great extent, 4= Great extent 3= Moderate extent and 2= Less extent and 1= No extent at all.

		Very great extent	Great extent	Moderate extent	Less extent	No extent
a.	Customer relationship management strategies have led to increase in investment in the bank					
b.	Customer relationship management plans have promoted good corporate image of the bank					
c	Customer relationship management have led to better understanding of customers need					

d.	Customer relationship management					
e.	Establishment of long-term business relationships with customers has contributed to better financial performance in the bank					
f	Customer relationship management plans have increased customer loyalty					
g	Customer relationship management plan have customer satisfaction with the services in your bank					

3. To what extent has customer relationship management in your bank benefited your bank by enhancing the following ways. Tick appropriately using a likert scale of 5 where 5= Very great extent, 4= Great extent 3= Moderate extent and 2= Less extent and 1= No extent at all.

		Very great extent	Great extent	Moderate extent	Less extent	No extent
a.	Attitude of the customers towards the bank					
b.	Bank's understanding of customer expectations					
	Improved quality perceptions					
c.	Increased reliability					

d.	Increased communication					
e	Increased customer retention					

4. To what extent has customer relationship management contributed to overall competitiveness of the bank?

   Very great extent [ ]

   Great extent [ ]

   Moderate extent [ ]

   Less extent [ ]

   No extent at all. [ ]

5. Which other measures can be taken to enhance the effectiveness of customer relationship management in your bank?

   a)

   b)

   c)

   d)

PART C: QUALITY MANAGEMENT

6. To what extent has service quality management contributed to achievement of the following in your bank? Tick appropriately using a likert scale of 5 where 5= Very great extent, 4= Great extent 3= Moderate extent and 2= Less extent and 1= No extent at all.

a	Increased return on investment					
b	Increased loan repayment					
c	Availability of sufficient fund to support business operation					
d	Increased profit margins					
e	Increased efficiency in service delivery					
f	Increased customer satisfaction					

7. To what extent has quality management benefited the bank in the following aspects? Tick appropriately using a likert scale of 5 where 5= Very great extent, 4= Great extent 3= Moderate extent and 2= Less extent and 1= No extent at all.

		Very great extent	Great extent	Moderate extent	Less extent	No extent
a.	lower costs of operation					
b.	better product quality					
c.	greater efficiencies					
d.	improved market share					
e.	better reputation					

f	increased employee motivation					
g	increased customer satisfaction					

8. To what extent has quality management contributed to overall competitiveness of the bank?

   Very great extent [ ]

   Great extent [ ]

   Moderate extent [ ]

   Less extent [ ]

   No extent at all. [ ]

9. Which other measures can be taken to enhance the effectiveness of quality management in your bank?

   a)

   b)

   c)

   d)

Appendix II: Commercial Banks

1. ABC Bank
2. Bank of Africa Kenya
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. Chase Bank
7. Citibank N.A.
8. City Finance Bank
9. CFC-Stanbic Bank
10. Co-operative Bank of Kenya
11. Commercial Bank Of Africa
12. Consolidated Bank of Kenya
13. Credit Bank
14. Development Bank of Kenya
15. Diamond Trust Bank of Kenya
16. Dubai Bank Kenya
17. Equatorial Commercial Bank
18. Equity Bank
19. Ecobank
20. Family Bank
21. Fidelity community Bank
22. First Community Bank
23. Fina Bank
24. Guardian Bank
25. Giro Commercial Bank
26. Gulf African bank
27. Habib A.G. Zurich
28. Habib Bank Kenya

29. Imperial Bank
30. I & M. Bank
31. K-Rep Bank
32. Kenya Commercial Bank
33. Middle East Bank
34. National Bank of Kenya
35. N.I.C. Bank
36. Oriental Commercial Bank
37. Paramount Universal bank
38. Prime Bank
39. Southern Credit bank
40. Standard Chartered Bank
41. Trans-National Bank
42. UBA bank
43. Victoria Commercial Bank