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# Effect of relationship management practices on loan portfolio performance of commercial banks in Kenya

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**EFFECT OF RELATIONSHIP MANAGEMENT PRACTICES ON  
LOAN PORTFOLIO PERFORMANCE OF COMMERCIAL BANKS  
IN KENYA**

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**MBA/99677/17**

A Dissertation submitted to Strathmore University Business School in  
Partial Fulfillment of the Requirements for the award of Master of Business  
Administration (MBA) Degree

**Strathmore University Business School**  
**Strathmore University**  
**Nairobi, Kenya**

**JUNE, 2019**

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## DECLARATION

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## ABSTRACT

Relationship Management is heralded as one of the strategies that have enabled business organizations to achieve greater feats. However, despite the intense growth in the practices by banks, reports indicate that there are doubts about the effectiveness of relationship management practices in enhancing banks' performance thereby calling for the need to establish the usefulness of relationship management practices embraced by banks. The general objective of this study was to establish the effect of relationship management practices on loan portfolio performance of commercial banks in Kenya. Specifically, the study examined the influence of complaints management, communications management, customer loyalty programs and personalized customer services on loan portfolio performance of commercial banks. The study was anchored on three theories; the institutional theory, the relationship management theory and the financial intermediation theory. Using a descriptive research design, the study targeted seven Tier 1 commercial banks in Kenya with bank employees drawn from customer care, sales and marketing, and loans and credit departments from the headquarters. The study used a purposive sample to select 124 respondents for the study. Data analysis was conducted using descriptive analyses which were done by use of SPSS version 23.0. The study established that complaints management, communications management, customer loyalty programs and personalized customer services all have an effect on loan portfolio performance of commercial banks. The study concludes that relationship management practices have significant effect on loan portfolio performance of commercial banks. The study recommends that management of the commercial banks should consider implementing relationship management practices as a critical determinant of their portfolio performance.

**Key Words:** Relationship Management Practices, Loan Portfolio Performance and Commercial Banks in Kenya.

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## LIST OF ABBREVIATIONS AND ACRONYMS

|                   |  |
|-------------------|--|
| <b>BBK</b>        | Barclays Bank of Kenya                                     |
| <b>CBA</b>        | Commercial Bank of Africa                                  |
| <b>CBK</b>        | Central Bank of Kenya                                      |
| <b>Co-op Bank</b> | Co-operative Bank  |
| <b>DTB</b>        | Diamond Trust Bank Limited                                 |
| <b>RM</b>         | Relationship Management                                    |
| <b>EBC</b>        | European Banking Coordination                              |
| <b>EBL</b>        | Equity Bank Limited  |
| <b>FSRF</b>       | Financial Sector Regulators Forum                          |
| <b>IFC</b>        | International Finance Corporation                          |
| <b>IMF</b>        | International Monetary Fund                                |
| <b>JKUAT</b>      | Jomo Kenyatta University of Agriculture and Technology     |
| <b>KBA</b>        | Kenya Bankers Association                                  |
| <b>KCB</b>        | Kenya Commercial Bank                                      |
| <b>KNBS</b>       | Kenya National Bureau of Statistics                        |
| <b>KPMG</b>       | Klynveld Peat Marwick Goerdeler                            |
| <b>MSME</b>       | Micro, Small and Medium Enterprises                        |
| <b>NACOSTI</b>    | National Commission for Science, Technology and Innovation |
| <b>NBK</b>        | National Bank of Kenya                                     |
| <b>NPLs</b>       | Non-Performing Loans                                       |
| <b>PwC</b>        | Price Waterhouse Coopers                                   |
| <b>SCB</b>        | Standard Chartered Bank                                    |
| <b>SPSS</b>       | Statistical Package for Social Sciences                    |
| <b>SSA</b>        | Sub-Saharan Africa   |
| <b>US</b>         | United States  |



## DEFINITION OF TERMS

**Commercial Banks:** Banks, which accept deposits, offer loans and related services to the general public and companies (CBK, 2017).

**Communications Management:** Refers to the process of controls put in place to ensure efficient management of information within the Bank (Muchai, 2016).

**Complaints Management:** refers to the processes put in place to oversee the resolution of issues raised by customers (Balakrishnan & Krishnaveni, 2014).

**Customer Loyalty Programs:** incentives that enhance consumers' consumption behavior. In this study, they include rewards schemes such as loyalty points, discounts, rebate or a combination of reward programs (Henderson, Beck & Palmatier, 2011).

**Loan Portfolio:** The total amount of loans that a bank or financial institution holds on a given time (Salim, Setiawan, Rofiaty & Rohman, 2017).

**Personalized customer services:** Refers to a series of activities meant to create value and enhance customer satisfaction level (Sakwa & Oloko, 2014).

**Relationship Marketing:** This refers to the strategy developed by an organization with the aim of fostering customer loyalty through interactions. It is built on connections created with customers in the past (Jayakumar & Sathiya, 2011).

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## **DEDICATION**

This dissertation is dedicated to my parents, brother and sisters for their moral support, love and encouragement during the preparation of this research project.

# CHAPTER ONE

## INTRODUCTION

### 1.1 The Background of the Study

Keeping a close eye on events as they unfold in an industry is important in aligning organizational operations to the rapidly changing customer tastes and preferences. Salim, Setiawan, Rofiaty and Rohman (2017) noted that the main cause of customer disappointment is the failure of an organization to respond to their complaints accurately and in a timely manner. Failure to provide responses that meet the customers search for information makes it difficult for them to engage with the organization in future. As noted by Kotler and Armstrong (2014), customers who have had their complaints attended to in good time and exhaustively form key candidates for loyal customers. They feel indebted to the organization and thus would always desire to be associated with it.

Sakwa and Oloko (2014) refer to customer service as the series of activities aimed at enhancing customer satisfaction level. Since most customers evaluate whether the products or services offered by a company meet their needs and expectations, organizations need to consider the quality and reliability of their products and services to individual customers. Today, good customer service is vital for the banks that have been in the industry for a long time since customers pleased with their experiences in the bank are most likely to return to the same bank for services than those who are displeased.

Maintaining and developing customer relations has become the mantra of success in the world of competition. Swarnapali (2014) notes relationship management (RM) is one of the sound business approaches used by banks to protect their market share, boost their growth and manage their risk portfolio. When effectively used, RM can enable a company build lifetime relationships with its customers and also gain value from such relationships (Thirumoorthi & Manjula, 2015). However, it also requires managing customers' knowledge directed towards improving and continuously delivering good services and understanding their different needs at different stages.

Most business establishments acknowledge customers as the lifeblood of their business. Customers' behavior and response to organizational offering have a great impact on the turnover and future performance (Gökdeniz, Bozacı & Karakaya, 2011). Balakrishnan and Krishnaveni (2014) supported this stand by noting that financial institutions have moved from transaction-centric to relationship-centric business approaches by focusing on building good relationships with their customers in order to attract profitable transactions. As a consequence, they have adopted various relationship management techniques to enable them attract and retain customers for the long term. This is mainly achieved through research and development to identify the unique needs of the customers and appropriate ways of satisfying these needs. The use of various marketing strategies such as enhanced product quality, competitive prices, reward programs and enhanced customer service programs has increased as firms seek to maintain lifetime relationships and to improve their performance. Waititu (2014) noted that this creates boundary conditions for banks to profitably serve their niche markets.

### **1.1.1 Relationship Management**

Relationship management is a dynamic concept that has kept evolving over the years. In earlier periods, customers were not given due attention since they were at the mercy of bankers who were quite choosy; however, with the onset of open market economy, the need to manage relationships became a vital organizational strategy. Thirumoorthi and Manjula (2015) noted that relationship management refers to an approach that is directly connected to a company's philosophy that guides all its policies and is vital in customer service and marketing. Mosoti and Oloko (2014) contend that relationship management enables a company to acquire certain customers, keep them and cooperate with them to create unique value for the company and the customer. The commonly used relationship management practices include complaints management. Complaints management is acknowledged by Tronvoll (2012) as a way of expression by customers of their dissatisfaction in the product or service offered by an organization. It helps organizations in aligning their product and service offerings to the changing tastes and preferences of customers for higher customer satisfaction. Mazur (2012) notes that establishment of

good communication channels facilitate sharing information and enhances relationship building. Sakwa and Oloko (2014) noted that communication positively increases banks performance. It enables banks to determine the new needs of customers and thus plan to avail such needs. Jayakumar and Sathiya (2011) established that commercial banks strive to ensure enhanced communication with their customers through both general and promotional communication including information pamphlets and banners to display information to customers. As firms learn how to manage RM effectively over time, they develop a one-to-one relationship with customers, thereby improving cost efficiency and increasing profit efficiency.

Other relationship management practices include formulation of customer loyalty programs where customers are rewarded for continuously purchasing company products and services. As noted by Mwangi (2010), customer loyalty programs enhance relationships between customers, which help companies in increasing their profitability. Nyarku (2013) notes maximizing customer loyalty through close, positive and durable relationships is critical in boosting banks' ability to grow. Another practice involves offering customized products and services that attend to customer specific needs. Pedro (2012) acknowledges the applications of personalized customer services in pursuit of increasing perceived service quality, trust and customer satisfaction are prerequisites for customer loyalty.

Globally, the foundation of the current relationship management system can be traced back to the early 1980s with notable advances being experienced from 1990 onwards (Salim, Setiawan, Rofiaty & Rohman, 2017). However, in Kenya, Thuo, Kibera, K'Obonyo and Wainaina (2011) note aggressive relationship management practices can be traced back to 2009 when Equity Bank launched media campaigns christened 'Karibu Member' to clearly demonstrate the bank's effort at seeking closer relationships with its targeted customers. Since then, most banks have heavily invested in costly technology and other practices to fully understand their customer needs and retain them in order to enhance their performance.

The use of relationship management practices has enabled organizations especially in the banking industry to achieve a variety of outcomes. Jayakumar and Sathiya (2011) note that the practices enable banks to have the ability to understand, anticipate and manage the needs of customers and to interact with them to gain increased profitability through revenue, marginal growth and operational efficiencies. Vinayagamoorthy and Sankar (2012) contend it maximizes customers' lifetime value and enables crucial business decisions that involve extraction of valid, previously unknown and ultimately comprehensible and actionable knowledge from large databases to influence performance.

Locally, Njoka (2013), Muro, Magutu and Getembe (2013) and Mosoti and Oloko (2014) report that relationship management practices have enabled banks to understand and serve customers better than their competitors, develop and improve new products, improve processes and relationships with customers and business partners, build lasting relationships with customers and; increase banks revenues and profits.

### **1.1.2 Loan Portfolio Performance**

Loan portfolio refers to the total amount of loans that a bank or financial institution holds in a given time representing the total of all monies extended to their customers as credit (Salim et al., 2017). It represents the total amount of credit advanced to customers in the form of loans, which remains outstanding at any one given moment. George, Miroga, Ngaruiya, Mindila, Nyakwara, Mobisa, Ongeri, Mandere and Moronge (2013) note that loan portfolio is the largest asset and source of revenue to most commercial banks. However, this asset poses the greatest risk to the soundness of most banks, as it cannot be ascertained with certainty the timeliness and accuracy in recovery.

On the other hand, loan portfolio performance is the rate of return on investment in various loan products by lending institutions either through mortgages, credit card loans, retail consumer loans, commercial and industrial loans, or through real estate loans. Onuko, Muganda and Musiera (2015) note that good loan portfolio quality has reduced non-performing assets. This in essence means that a good loan portfolio performance is

one in which debtors repay bank loans extended to them at the agreed interest rate and duration.

### **1.1.3 Relationship Management Practices and Loan Portfolio in the Kenyan Banking Industry**

Compared to other East African countries, Kenya's banking industry has attracted more customers into their banking space and recorded increased lending activities due to enhanced RM practices and banks are still exposed to bad loans risk with overall gross non-performing loans (NPLs) increasing year after year (Kantidas, 2012). A report by Ernst and Young (2014) shows that in 2013, loans portfolio yield was low at 0.8% with non-performing loans being at 4.2% of the total loans given out to customers despite the enhanced relationship management practices by most Kenyan commercial banks. Financial Sector Regulators Forum [FSRF] (2016) data also shows that NPLs in Kenya rose by 36.04% to Kenya Shillings 147.3 billion in December 2015 while the ratio of gross NPLs to gross loans was at 6.8% in December 2015 -which was an increase from 5.4% in 2014. World Bank (2016) data further shows non-performing loans to total gross loans stood at 7.8 % as at 2016. Even though most banks have reviewed their customer centric strategies and adopted new methods, however, the increases in NPLs raises doubts on the exact role of enhanced RM practices on banks' loans portfolio performance.

An analysis of the RM practices by Equity Bank Limited [EBL] in Kenya shows that prior to the launch of the 'Karibu Member' campaign, the bank's NPLs on gross customer loans was higher than the recommended market rate (EBL, 2010). However, after the launch of enhanced relationship management campaigns, the EBL (2012) investor briefing report shows the bank recorded growth in loans disbursement to customers and a decline in NPLs ratios of 4.5%, 2.8% then a slight increase to 3.0% for the years 2010, 2011 and 2012 respectively compared to previous years. This is an indication that RM strategies could have contributed to the bank's non-performing loans trends. In the year 2017, Standard Chartered Bank (SCB) recorded high profits with 31 branch networks as compared to banks with larger branch network. The stability in

profitability of Standard Chartered Bank was attributed to the application of relationship management systems, which increased cross selling and customer loyalty (SCB, 2018).

## **1.2 Problem Statement**

In the era of high competition for customers and globalization, retaining customers has been found to be more profitable to an institution as compared to gaining new ones. This is because the costs associated with attracting new customers are high reducing the competitiveness of banks (Chopra & Arora, 2013). Thuo et al. (2011) note aggressive RM practices can be traced back to the launch of media campaigns by Equity Bank Limited in 2009 to seek closer relationships with its customers. Since then, most banks have accepted relationship building as an over-riding goal and have heavily invested in costly technology and practices to enhance their performance.

Effective relationship management practices enable banks to interact, understand, anticipate and manage customers' needs thereby significantly enhancing banks profitability, revenue, marginal growth and operational efficiencies (Henderson, Beck & Palmatier, 2011). However, despite the intense growth in the adoption of enhanced RM practices by Kenyan banks, reports indicate the banks are still exposed to bad loans danger thus threatening their viability and sustainability. FSRF (2016) data shows that the country's NPLs rose by 36.04% to Kshs. 147.3 billion while the ratio of gross NPLs to gross loans was at 6.8% in December 2015. Further, World Bank (2018) data shows NPLs to total gross loans was 7.8% in December 2018. This raises questions as to whether relationship management practices by banks impact on loans portfolio in any way.

Commercial Banks play a decisive role in the development of industry and trade. They are acting not only as the custodian of the wealth of the country but also as resources of the country, which are necessary for the economic development of a nation. Even though commercial banks in Kenya have continued to experience rising loan default in the wake of enhanced relationship management practices, previous studies mainly focused on RM practices and other aspects of banks performance with less regard to loans portfolio.

Wanjau (2013) did a study on the effect of RM on customer retention in banks; Muro (2013) studied the strategic benefits and challenges of RM systems in banks and Waititu (2014) assessed the influence of customer centric strategy on banks performance. It is thus evident that a knowledge gap exists that this study sought to fill by asking the question: What is the effect of relationship management practices on banks' loan portfolio performance?

### **1.3 Objectives of the Study**

The main objective of the study was to determine the effect of relationship management practices on loans portfolio performance of commercial banks in Nairobi, Kenya. The specific objectives of the study were:

- i. To determine the effect of complaints management on loans portfolio performance of commercial banks in Nairobi.
- ii. To identify the effect of communications management on loans portfolio performance of commercial banks in Nairobi.
- iii. To establish the effect of customer loyalty programs on loans portfolio performance of commercial banks in Nairobi.
- iv. To find out the effect of personalized customer services on loans portfolio performance of commercial banks in Nairobi.

### **1.4 Research Questions**

- i. What is the effect of complaints management on loans portfolio performance of commercial banks in Nairobi?
- ii. How does communications management affect loans portfolio performance of commercial banks in Nairobi?
- iii. What is the effect of customer loyalty programs on loans portfolio performance of commercial banks in Nairobi?
- iv. How do personalized customer services affect loans portfolio performance of commercial banks in Nairobi?

### **1.5 Significance of the Study**

First, the study would be beneficial to commercial bank managers as it would enable them better understand the effect of relationship management practices on loans portfolio performance, and thus be able to focus on enhancing the practices to guarantee the soundness of loan performance in commercial banks.

Secondly, findings from the study would be significant to policy makers as it would form the basis of guiding them in coming up with appropriate relationship management policies that would influence loan performance and which would spur economic growth and profitability of commercial banks.

Thirdly, researchers and academicians in the field of finance, economics and banking would find this study a useful source of empirical evidence and would also be used as a guide in carrying out further studies in the area. The study will add knowledge to the existing theories on relationship management.

Lastly, the findings of the study would be important to customers of commercial banks. Through the findings of the study, the management of commercial banks would be able to implement the best relationship practices that would generate more value to customers. The findings would inform commercial banks to come up with the best ways of handling customer complaints.

### **1.6 Scope of the Study**

The study was limited to identifying the effect of relationship management practices on loans portfolio performance of commercial banks in Nairobi, Kenya. The study focused on finding the effect of complaints management, communications management, loyalty programs and personalized customer services on loan portfolio performance of commercial banks in Nairobi. The study concentrated on seven banks in Tier I with their Headquarters in Nairobi. The choice of the seven Tier I commercial banks is also based on total proportion of loan assets held by these banks as compared to the remainder. The banks have enhanced their RM practices and also recorded significant improvements in

profitability; however, they have also recorded increased loans default rates. This calls for the need to establish whether the RM practices by commercial banks play a role in commercial banks loans performance.

In geographical terms, the area of study covered the headquarters of seven Tier 1 commercial banks in Nairobi, namely: Kenya Commercial Bank [KCB], Co-op Bank, Equity Bank [EB], Commercial Bank of Africa [CBA], Standard Chartered Bank [SCB], Diamond Trust Bank Limited [DTB], and Barclays Bank of Kenya [BBK]. This is due to high proportion of loan portfolio held by these banks, which is more than 50% in relation to the entire banking industry. The study was undertaken within a period of twelve (12) months and the report contained information gathered between January 2019 and April 2019.

### **1.7 Organization of the Dissertation**

The dissertation is organized in five chapters. It starts with the introduction, which presents the conceptual and contextual arguments to provide the background of the statement of the problem. It also highlights the objectives, significance, scope and limitations of the study. Chapter two reviewed relevant literature undertaken by previous scholars. It starts off by identifying the theoretical anchorage, followed by the empirical review, research gaps, summary of literature reviewed and finally, a conceptual framework. Chapter three presents the methodologies that were adopted. It specifically identifies the research design, population, sampling frame and sample size, data collection instruments and procedure, data analysis and data processing. It also highlights the ethical standards observed by the researcher. Chapter four contains data analysis and presentation of the findings and finally chapter five contains discussion of the findings, conclusion, recommendations and suggestions for further studies.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter presents theoretical perspectives on relationship management dynamics. It reviews literature based on authoritative and original sources such as journals, articles, books, thesis and dissertations to provide an understanding of the economic and financial effect of relationship management practices on the performance of commercial banks loans portfolio with special regard to complaints management, communication management, customer loyalty programs, and personalized customer services. The chapter also presents a conceptual framework showing the relationship between the dependent and independent variables.

#### **2.2 Theoretical Review**

This subsection reviews the various schools of thought informing this study, specifically, three theories: financial intermediation theory, institutional theory, and relationship management theory. The three theories are expounded to help shed light on the effect of relationship management practices on loan portfolio performance of commercial banks in Nairobi, Kenya.

##### **2.2.1 Financial Intermediation Theory**

Financial Intermediation theory was developed by Jensen and Meckling in 1975. The theory describes four economic functions of deposit taking financial institutions: financial intermediation information specialist, delegated monitors, and payment and financial services provider (Leland & Pyle, 2002). This is achieved by explaining the role played by financial institutions in an economy. Gorton and Pennacchi (2001) explained that banks as financial intermediaries are in a position to obtain confidential information and access privileged information both on the demand and supply side of the market. Through application of the information collected, they can assess the risk profile of each side and

put in place the necessary measures to ensure that the interests of each stakeholder are safeguarded.

The current financial intermediation theory builds on the notion that intermediaries serve to reduce transaction costs and informational asymmetries. However Scholtens and Wensveen (2003) assert that as developments in information technology, deregulation, deepening of financial markets, etc. tend to reduce transaction costs and informational asymmetries, financial intermediation theory shall come to the conclusion that intermediation becomes useless. For the current financial intermediation theory to hold, a large number of securities are needed except in special cases (Hay & Morris, 1979). Leland and Pyle (2002), suggest that an intermediary can signal its informed status by investing its wealth in assets about which it has special knowledge. The reality is that the financial systems in many countries have undergone a dramatic transformation in recent years.

According to Hay and Morris (1979), the role of the financial intermediary is essentially seen as that of creating specialized financial commodities. These are created whenever an intermediary finds that it can sell them for prices that are expected to cover all costs of their production: both direct costs and opportunity costs. Financial intermediaries exist due to market imperfections. As such, in a 'perfect' market situation, with no transaction or information costs, financial intermediaries would not exist. In financial markets, information asymmetries are particularly pronounced. Borrowers typically know their collateral, industriousness, and moral integrity better than lenders do. On the other hand, entrepreneurs possess inside information about their own projects for which they seek financing (Leland & Pyle, 1977). This theory is relevant in this study as it explains the core function of financial institutions that result in loan portfolios. Through their normal intermediation processes, financial institutions are supposed to ensure that they optimize overall bank performance.

### **2.2.2 Institutional Theory**

This is a theoretical framework that seeks to explain the reason behind firms' conformation to their environment through adoption of a wide range of practices consisting of structures, including schemes, rules, norms, and routines to establish authoritative guidelines for social behavior with customers both internally and externally. It underscores the importance of instituting institutions that are to guide the unfolding of events in the organization. Theorists Meyer and Rowan (1991) posit that the social context in which institutions operate can influence firm behavior both within and without thereby making firms within a given industry, for instance banks to adopt structures and practices that conform to industry demands. DiMaggio and Powell (1983) noted that social context exerts pressure on social conformity thereby making firms to display similarities in their operational practices while Scott (2008) further contends that the social processes, norms and expectations are vital in explaining firm behavior. This goes a long way in explanation of the adoption and implementation of relationship management practices among banks.

Institutional theory has proved very useful to many businesses; innovative structures that seek to advance technical efficiency and enhance performance of the adopting organizations are legitimized in the environment (Scott, 2008). However, the challenge is that existing firms in the social context may adopt formal structures irrespective of whether they improve efficiency or not. Ansari, Fiss and Zajac (2010) assert that this has called for increased attention on the events after initial adoption of the structures, during implementation and action by firms. In this study, institutional theory contributes to the understanding of the variations in the effectiveness of formal structures adopted by commercial banks such as the relationship management practices in promoting banks performance, more so loan portfolio performance. It helps in explaining how complaints management, communication and offering personalized financial services affect overall loan portfolio performance in banks.

### **2.2.3 Relationship Management Theory**

The theory was developed by Waters (1989) and it provides guidance on how firms can thrive in a relationship economy by identifying their customers as well as coming up with measures to satisfy and retain them for long term benefits; it is concerned with building bonds with customers to ensure long-term relationships of mutual advantage. Westch (2005) notes that relationship management combines relationship marketing and customer centric approaches to promote customer trust, satisfaction and loyalty by focusing on establishing, maintaining and enhancing relationships with customers as well as creating value for organizations.

Christopher, Payne and Ballantyne (1991) note that relationship marketing has evolved from a primary focus on consumer goods in the 1950s, industrial marketing in the 1960s, non-profit and societal marketing in the 1970s, services marketing in the 1980s and finally, relationship marketing in the 1990s. Gronroos (1994) asserts there have been paradigm shifts in marketing from the focus on the four Ps of marketing –product, price, place and promotion to a new approach that is largely based on building and management of relationships. It also seeks to change the market demands in favor of a particular company by providing unique value, which must be sustainable over time at a profit.

Banks that embrace the marketing concept see relationship marketing as the way to build loyal and profitable long-term relationships with each customer segment. It has been noted that relationship-marketing efforts by banks view customer satisfaction as the highway to profits. Muchangi (2014) notes that it mainly focuses on customer retention, service, and product benefits, long-term scale, service emphasis, high customer commitment, customer contact, quality, and customer loyalty with the aim of making the most out of existing customers to enable the company to make long-term profits; however, profitability may not be automatic. Ernst and Young (2005) contend that thriving in a relationship economy has remained a challenge to most firms. Business environment has changed into a complex landscape, which has resulted in the high value placed on relationship marketing today.

Today, relationship marketing practices are being promoted by many generations of relationship management software that enable tracking and analysis of each client in terms of their preferences, activities, tastes, likes, dislikes, and even complaints. However, to be successful, relationship marketing philosophy needs the support of all bank departments and functions on an integrated basis; a feat that may not be easily attained. Taken to this study, the focus of relationship marketing would enable banks to know their customers, their needs and then cross sell throughout the divergent customer segments; thus, further helping increase customer loyalty and customer retention which in turn promote loan repayment thereby leading to improved financial and market performance, and consequently, increased competitive edge. This calls for the establishment of value-added services prior to transactions and continuing past transactions to sustain repurchase by customers, loyalty and retention, which then would lead to enhanced loan performance, hence profitability of banks.

This theory explains how all the variables of complaints management, communication management, loyalty programs and offering customized financial services relate with overall loan portfolio performance of commercial banks.

### **2.3 Empirical Review**

In order to understand the scope covered by other scholars and researchers in relation to relationship management and loan portfolio performance, this section highlights the empirical literature per study objective. This helps in directing the current study in terms of research methodology, instrument, analysis and presentation. The review is organized in accordance to study variable to ensure comprehensive coverage.

#### **2.3.1 Complaints Management and Loan Portfolio performance**

Complaints management as one of the relationship management practices refers to the approaches organizations use to resolve complaints or disputes (Salim, Setiawan, Rofiaty & Rohman, 2017). Dissatisfaction amongst customers has been noted as one of the key reasons why customers decide to switch from one provider to another. Once customers feel that their service provider is not availing sufficient explanation for issues raised, they

always a complaint to someone in charge of making a decision. Depending on the sufficiency of the response, the customer may be satisfied or dissatisfied. In this era of high competition, firms are required to manage complaints raised by their customers promptly so as to turn them into loyal customers. Kotler and Armstrong (2014) argued that customers whose complaints have been sufficiently handled are key candidates of loyal customers. They stand a high chance of feeling indebted to the institution and would always want to be associated with the organization.

Tronvoll (2012) noted that complaints are a way of expression by customers of their dissatisfaction in the product or service offered by an organization. It may either be formal or informally communicated but the manner in which such complaints are handled have a great bearing on the long-term performance. Kaura, Prasad and Sharma (2015) noted that complaint management is the flashpoint at which a bank can gain a lifelong customer or risk losing a valued customer for life. This is because dissatisfied customers need to know that their complaint is actually being heard and addressed appropriately. However, today, not paying attention to customer complaints may cause considerable losses in today's business environment (Kompas, 2016). As a stop gap measure, most banks have put in place adequate relationship management practices aimed at addressing customer complaints by availing well-trained, knowledgeable and courteous staff as first line defense against customer complaints.

Through relationship management software, resolution of consumer complaints has now become more efficient and effective. It is nowadays evident that an effective complaint management is vital in customer retention when problems occur and in winning their loyalty. Filip (2013) indicate that complaints management provides banks with unique and valuable insight into the experiences of their customers, enables banks to learn from complaints so as to improve on how to work and provide best services possible to customers. To do this right, organizations must listen to customers' complaints and understand the issue before carrying out thorough and fair investigation on the complaints and thereafter explain explanations and offer assistance to customers (Gökdeniz, Bozacı and Karakaya, 2011).

Yilmaz, Varnali, and Kasnakoglu (2016) examined different ways that firms benefit from customer complaints management. To realize this, the study divided the scope into factors related to customer responses and those related to organizational learning. Through hierarchical regression analysis the findings indicated that learning from complaints influence performance both in the short and long term in a positive manner. Empirically, the influence of complaints management on organization performance has attracted researchers' interests. In a study that investigated Spanish financial institutions' propensity to amend and rectify errors from complaints that financial services' users file with the Spanish complaints service regulator and how the propensity related to financial institutions risk profile, Gambetta, Zorio-Grima and Garcia-Benau (2015) found out that financial institutions with higher amendment ratio were inefficient, had high liquidity, were highly profitable and were sensitive to market risks within the banking business. On the other hand, the study also revealed that financial institutions that tended to rectify errors had lower loan loss provisions and larger loan portfolios. The findings therefore reveal that complaints management is key to loans portfolio performance in banks.

In a study of the United States [U.S.] retail banking industry, PwC (2014) report reveals that a strong complaint management program was crucial to customer retention and bottom-line profitability of American banks and that 55% of retail banking customers surveyed would most likely stay loyal to their institutions as long as their issues were positively resolved. The report further indicated that financial institutions with well-established complaint management programs would most likely benefit from adapting to changing expectations from regulators and customers. The study thus reveals that effective complaint management can produce loyal customers who will, in return most likely help improve banks portfolio performance.

### **2.3.2 Communications Management and Loan Portfolio Performance**

Communication is the process of exchanging meanings between individuals or groups as expressed through a system of symbols, signs and behaviours (Muchai, 2016). It covers all the activities carried out by an individual in order to transform another person's mind. The controls put in place to regulate the flow of information within an organization

details the different management policies instituted to manage information flow. This is commonly known as communication management, which is meant to ensure that no information lands to an undesired recipient.

In effective business communication, messages are conveyed through various channels such as the Internet, print, television, radio, outdoor advertisements and even word of mouth in order to promote sales of banks products and service. The sent message must reach the target audience and the receiver must understand and respond to the message; likewise, the feedback must also be understood, interpreted, and responded to accordingly. Business communication is any communication used

In the banking context, communication is a necessary process in relationship marketing since it promotes relationship building, customer trust, and provision of vital information necessary for cooperative and collaborative relationship marketing activities. Mazur (2012) notes that establishment of good communication channels facilitate sharing information and enhances relationship building while Muchai (2016) notes it helps reduce potential losses.

Nyarku (2013) notes that for relationship management system to be successful, it must ensure all those concerned have the same information available to everyone in the company so that customers' needs are effectively met. This implies that customers must be the main focus of banking institutions, must be empowered and that their information must be relied upon by banks in order to attend to them effectively. As such, today, most banks have increased their communication efforts through reminders such as Short Messages (SMS), banners, emails or even simple telephone calls to keep clients informed.

Empirical studies have confirmed that maintaining a certain level of communication with consumers allows business firms to identify potential sources of costly problems before they come to a head. In a descriptive study that sought to find out the effect of customer service practices on performance of banks, Sakwa and Oloko (2014) found that communication positively increases banks performance. It enables banks to determine the

new needs of customers and thus plan to avail such needs. It also ensures customer queries are responded to appropriately and ensures standing instructions and reports are carried out automatically and promptly on thus guaranteeing realization of a positive performance in the banking sector. This study seeks to establish the effect of effective communication on commercial banks loans portfolio.

Adeyeye (2013) used a survey research that sampled 113 employees from selected banks in Oyo town in Nigeria to investigate the impact of relationship management on perceived bank performance and found out that communication was one of the factors that predicted perceived organizational performance in banks. The finding may be taken to imply that banks can use effective communication, as one of the relationship management strategies, as a tool to improve their loans portfolio and to take competitive advantage.

In a descriptive study on banking sector to determine relationship management practices in Salemi District in India, Jayakumar and Sathiya (2011) found that commercial banks strive to ensure enhanced communication with their customers through both general and promotional communication including information pamphlets and banners to display information to customers. Krasnikov et al. (2010) in a study of the U.S. commercial banking industry to establish the impact of RM implementation on cost and profit efficiencies found that RM implementation improved the ability of firms to customize the offerings by communicating effectively and providing timely feedback to the customers. As firms learn how to manage RM effectively over time, they develop a one-to-one relationship with customers, thereby reducing cost efficiency and increasing profit efficiency. The study thus provides support for the argument that effective RM strategy should include elements of business strategy, organizational motivation and information technology to provide relational benefits to customers and organizations.

### **2.3.3 Customer Loyalty Programs and Loan Portfolio performance**

Loyalty programs have been part and parcel of relationship management strategies used by organizations for years to encourage customers to continue using an organization's products or services. Mwangi (2010) notes customer loyalty programs enhance

relationships between customers and helps companies to increase their chances of profitability since loyal customers are a source of consistent revenue over a given duration.

Today, there are varied reward schemes available for bank customers, for instance, discount programs that offer a specified percentage off the purchase price; points programs that enable customers to earn additional points upon buying goods or services from retailers; rebate programs that allow customers to accrue financial benefits from purchases that are saved up and redeemed after a set time period or; a combination of reward programs. Henderson, Beck and Palmatier (2011) contend that loyalty program is an incentive that gradually enhances a consumers' consumption behavior.

Loyalty programs promote customer loyalty a vital ingredient to the success of banks business that can greatly enhance banks profitability. Nyarku (2013) notes maximizing customer loyalty through close, positive and durable relationships is critical in boosting banks' ability to grow. However, customer loyalty is a concept with different dimensions; it can be measured on the basis of customers' behavior as can be seen in customer consistency and repeat purchases or it can be measured on the basis of customers' attitude as indicated by customers' emotional and psychological attachments.

Empirically, studies on loyalty programs have yielded mixed results; however, Steinhoff and Palmatier (2014) contend many of the programs perform poorly thereby pointing out that they do not contribute to bottom line performance of banks. In a study that explored relationship management best practices and loyalty of profitable customers in Indian retail banking sector, Jitesh, Kalol and Vijaykumar (2011) found that relationship management might not lead to improvement in profits at least in the Indian banking industry. In this respect, it could be taken that customer loyalty programmes, as one of relationship management practices, may not promote actual loan repayment by bank customers thereby helping enhance profitability of banks.

In a survey study sponsored by McKinsey and Company that involved 55 publicly North American and European traded companies, Nideau and Singer (2014) reported that

organizations that spend more on loyalty programs grow at equivalent rate or slightly slower rate than organizations that do not have loyalty programs. This means that loyalty programs may not really pay off for organizations that offer them.

In study sponsored by Burns and Company that featured 190,200 consumers in 27 countries, duToit and Burns (2013) reveal that some banks use while others do not embrace loyalty to improve the economics of their business. The report further revealed that even though in some countries, banks made progress in earning customers' loyalty, however, they were far from exploiting the full potential of loyalty since their sales metric was low. This raises doubt on the actual effect of loyalty programs on banks portfolio performance.

In a survey study featuring 600 customers and bank personnel in Nigeria to examine the imperatives of relationship management in order to ascertain the contribution of effective relationship management to customer loyalty and profitability or performance of the banks, Ogbadu and Usman (2012) found that there existed a direct relationship between relationship management and customer loyalty as well as banks profitability. The study thus recommended that banks ought to pursue relationship management programs with rigor to enable them attain their business objectives.

Kantidas (2012) conducted a comparative study on relationship management in the Indian banking sector and found that most customers were uncertain about RM's benefit in building customer loyalty and that RM does not enhance customer loyalty. This may imply that RM practices involving customer loyalty programs may not help in retaining profitable customers who may promote portfolio performance of banks.

#### **2.3.4 Personalized Customer Services and Loan Portfolio Performance**

Personalized customer services are a series of activities by organizations meant to create value and enhance customer satisfaction level (Kasiri, Guan, Sambasivan & Samsinar, 2017). The services involve anticipating, identifying, satisfying and even exceeding individual customer's desires and expectations. Customization of services ensures that the unique needs of a customer are met hence boosting the acquisition of distinctive

competitive advantage of an organization (Uma & Chandramowleeswaran, 2015). Customization helps organizations provide goods and services that best fit the needs, preferences and expectations of their customers while at the same time making it difficult for the competition to imitate and replicate the service. Customization therefore helps in adding value to the offerings of an organization, which cannot be obtained anywhere else (Adeyeye, 2013). In order to carry out effective customization of products and services, there needs to be built a learning relationship between the organization and its customers so as to promise a superior product customization.

Customization has been used by organizations like commercial banks to lock in customers across the world. For instance, Pedro (2012) acknowledges the application of personalized services in pursuit to increase perceived service quality, trust and customer satisfaction which are prerequisites for customer loyalty. Organizations in the service industry can apply customization strategy in boosting the level of overall customer satisfaction and loyalty. While studying the impact that customization together with reliability of services has on the level of customer satisfaction using the case of the lodging industry in the United States, Gagnon and Roh (2008) confirm the contributions made by customization on improvements in customer satisfaction.

Customer centric services are the lifeblood of business organizations. Moti et al., (2012) asserts that a key requirement for effective credit management is the ability to intelligently and efficiently manage customer credit lines. In order to minimize exposure to bad debt, over-reserving and bankruptcies, companies must have greater insight into customer financial strength, credit score history and changing payment patterns

Empirically studies on RM strategy of customer centric services have yielded mixed results. A study that examined the effect of customer service on the perceived performance of Barclays Bank in Jinja Uganda using a sample of 58 respondents with bank accounts and used the bank services on a routine basis, Mpaata, Lubogoyi and Okiria (2017) found that there is a strong relationship between sustainable customer service and the perceived performance of the bank. As a consequence, the bank also significantly improved on its relationship service marketing strategies in order to preserve

its core competence of an international outlook already created. This indicates that customer services as one of the relationship management practices can be vital in the determination of banks loans portfolio.

In a descriptive study that targeted 202 employees drawn from eight commercial banks in Kitale town in Kenya to assess the effect of customer service on performance of commercial banks, Sakwa and Oloko (2014) found that waiting situation practices, segmentation, multiple service delivery channels and communication affected the performance of the banking sector in the town. This calls for better and efficient ways of increasing customer satisfaction through service delivery in order to improve bank performance.

Njoka (2013) conducted a descriptive survey research that gathered data from 95 relationship managers from the five commercial banks to establish the effect of relationship marketing on the commercial banks' performance in Kenya and found out that there existed a strong relationship between relationship marketing and banks performance and that that customer care management is one of the key pillars that enhance banks performance. However, in this study, the researcher seeks to test the effect of relationship management practices as measured by customer services on commercial banks loans portfolio.

In a survey study of 6 banks that survived post-2004 consolidation exercise of the Central Bank of Nigeria using Structural Equation Modeling [SEM] to examine the specific relationship between critical success factors of customer service management and perceived business performance measure in the Nigerian banking industry, Awolusi (2012) found that customer service efforts improve business performance. This implies that personalized customer service programs can play a great role in banks' loan portfolio performance.

Camarero (2007) investigated the impact of service quality and relational benefits on the market and economic performance in the financial and insurance service setting and found that the relational efforts such as preferential treatment, communication and

adaption to customer needs significantly affected firms' market performance and that service quality influenced relationship orientation and market performance.

#### 2.4 Research Gaps

Even though relationship management practices have proved vital to banks performance, the existing literature has not revealed the specific effect of various relationship management practices embraced by banks today. Existing literature has not considered the effect of complaints management, communications management, loyalty programs and personalized customer services on banks' loan portfolio performance hence a research gap. The gaps in empirical reviews presented above are summarized in the Table 2.1 below:

**Table 2.1: Research Gaps**

| Relationship Management Practice | Measures   | Authors   | Weaknesses  |
|----------------------------------|--|---|---|
| Complaints Management            | <ul style="list-style-type: none"> <li>▪ Time taken to resolve client complaint</li> <li>▪ Average number of complaints resolved per month/ Staff</li> <li>▪ Number of customer commendations</li> </ul> | Salim et al., 2017; Kaura et al., 2015; Yilmaz et al., 2016; and Gambetta et al., 2015  | <ul style="list-style-type: none"> <li>▪ The contexts used in the study is different from that of the current study hence making it difficult to apply their findings in the current study settings</li> <li>▪ The methodologies adopted and the variables used vary from the combinations adopted by this study</li> </ul> |
| Communications Management        | <ul style="list-style-type: none"> <li>▪ Time taken for information to reach intended destinations</li> <li>▪ Time taken to get feedback</li> <li>▪ Efficiency of the models adopted</li> </ul>          | <ul style="list-style-type: none"> <li>▪ Muchai, 2016</li> <li>▪ Mazur, 2012</li> <li>▪ Nyarku (2013)</li> <li>▪ Sakwa and Oloko (2014)</li> <li>▪ Adeyeye (2013)</li> <li>▪ Krasnikov et al. (2010)</li> </ul> | <ul style="list-style-type: none"> <li>▪ There is a periodic lapse between the time the studies were conducted and the time this study is to be carried out.</li> <li>▪ Advancements in communication have changed the way information is passed on hence the need for the current study</li> </ul>                         |
| Customer Loyalty Programs        | <ul style="list-style-type: none"> <li>▪ Existing loyalty programs</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Henderson (2011)</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Emergence of new ways of rewarding customers</li> </ul>  |

|                                |  |  |   |
|--------------------------------|--|--|---|
|                                | <ul style="list-style-type: none"> <li>▪ Number of customers utilizing each program</li> <li>▪ Amounts recovered through loyalty programs</li> <li>▪ Loans issued during loyalty program period / offer</li> </ul>                 | <ul style="list-style-type: none"> <li>▪ Nyarku (2013)</li> <li>▪ Jitesh (2011)</li> <li>▪ Nideau and Singer (2014)</li> <li>▪ duToit and Burns (2013)</li> <li>▪ Kantidas (2012)</li> </ul>                             | <p>through points and discounts.</p> <ul style="list-style-type: none"> <li>▪ Increased interest and uptake by more customers to benefit from loyalty programs hence need for further research</li> </ul> |
| Personalized Customer Services | <ul style="list-style-type: none"> <li>▪ Number of customized products</li> <li>▪ Number of customers who have taken up customized products and services</li> <li>▪ Number of new customers signing up for new services</li> </ul> | <ul style="list-style-type: none"> <li>▪ Adeyeye, (2013).</li> <li>▪ Gagnon and Roh (2008)</li> <li>▪ Moti et al., (2012)</li> <li>▪ Mpaata, (2017)</li> <li>▪ Sakwa and Oloko (2014)</li> <li>▪ Njoka (2013)</li> </ul> | The level of customization and the uptake of these services varies from one region to another. This therefore makes it difficult to apply the findings of one region to another.                          |
| Loan Portfolio Performance     | <ul style="list-style-type: none"> <li>▪ Number of credit applicants (per month for – period of time)</li> <li>▪ Overall loans volume (Ksh.)</li> </ul>  | <ul style="list-style-type: none"> <li>Salim et al., 2017</li> <li>Onuko et al., (2015)</li> </ul>   | The studies mainly focused on loan performance in terms of repayment and amounts disbursed and not portfolio performance as is the case with the current study  |

**Source: Author (2019)**

## 2.5 Summary of Literature Review

Generally, relationship management practices involving retail and financial service providers have received considerable interest amongst practitioners and scholars. However, the existing studies have generated mixed results; while some have shown that there exists some relationship between relationship management practices and loans portfolio performance of banks, others proved that there is no concise relationship between the two variables.

The aforementioned literature review has shown that relationship management practices have attracted the attention of quite a number of researchers and scholars both locally and elsewhere. The studies have shown that various relationship management practices by

banks contribute to banks performance hence may be useful in loans portfolio performance in banks. Among the practices are complaints management, communications management, loyalty programs and personalized customer services. However, it cannot be assumed that these are the only relationships management practices by banks as others include, information technology, knowledge management, customer communication, customer acquisition, customer interactions, customer response and customer transaction (Peck, Payne, Christopher & Clark, 2014).

Communications management as one of the relationship management practices by banks enables provision of vital information to customers that facilitate cooperative and collaborative relationship marketing activities. Furthermore, communications management can enable banks to identify potential sources of risks before they come to a head; for instance, it can enable banks to identify risky markets/borrowers in advance before extending credit facilities to them. Muchai (2016) asserts that this helps reduce potential losses such as those that may arise from defaulting. All these are vital to loans portfolio performance of banks.

Loyalty programs have been used by banks to shape customer loyalty and retention; however, Steinhoff and Palmatier (2014) and Jitesh, Kalol and Vijaykumar (2011) notes many of them perform poorly and may not lead to improvement in profits. Further, Nyarku (2013); duToit and Burns (2013) and; Beck and Palmatier (2011) notes loyalty programs may be critical in boosting banks' ability to grow and may act as an incentive that gradually enhances consumers' consumption behavior.

Personalized customer services are vital in value creation and enhancement of customer satisfaction level hence those pleased with their experiences in the bank are most likely to return to the same bank for services than those who are displeased. Mpaata et al., (2017); Njoka (2013) and; Awolusi (2012) contend that customer service efforts are key pillars that enhance banks performance; hence may be an effective tool in promoting commercial banks loans portfolio. As a consequence, the bank also significantly improved on its relationship marketing strategies in order to preserve its core competence of an international outlook already created.

## 2.6 Conceptual Framework

The conceptual framework presents the relationship between the independent variables and dependent variable. The independent variables are complaints management, communications management, customer loyalty programs and personalized customer services while the dependent variable is the loans portfolio performance. The conceptual framework is shown in figure 2.1.

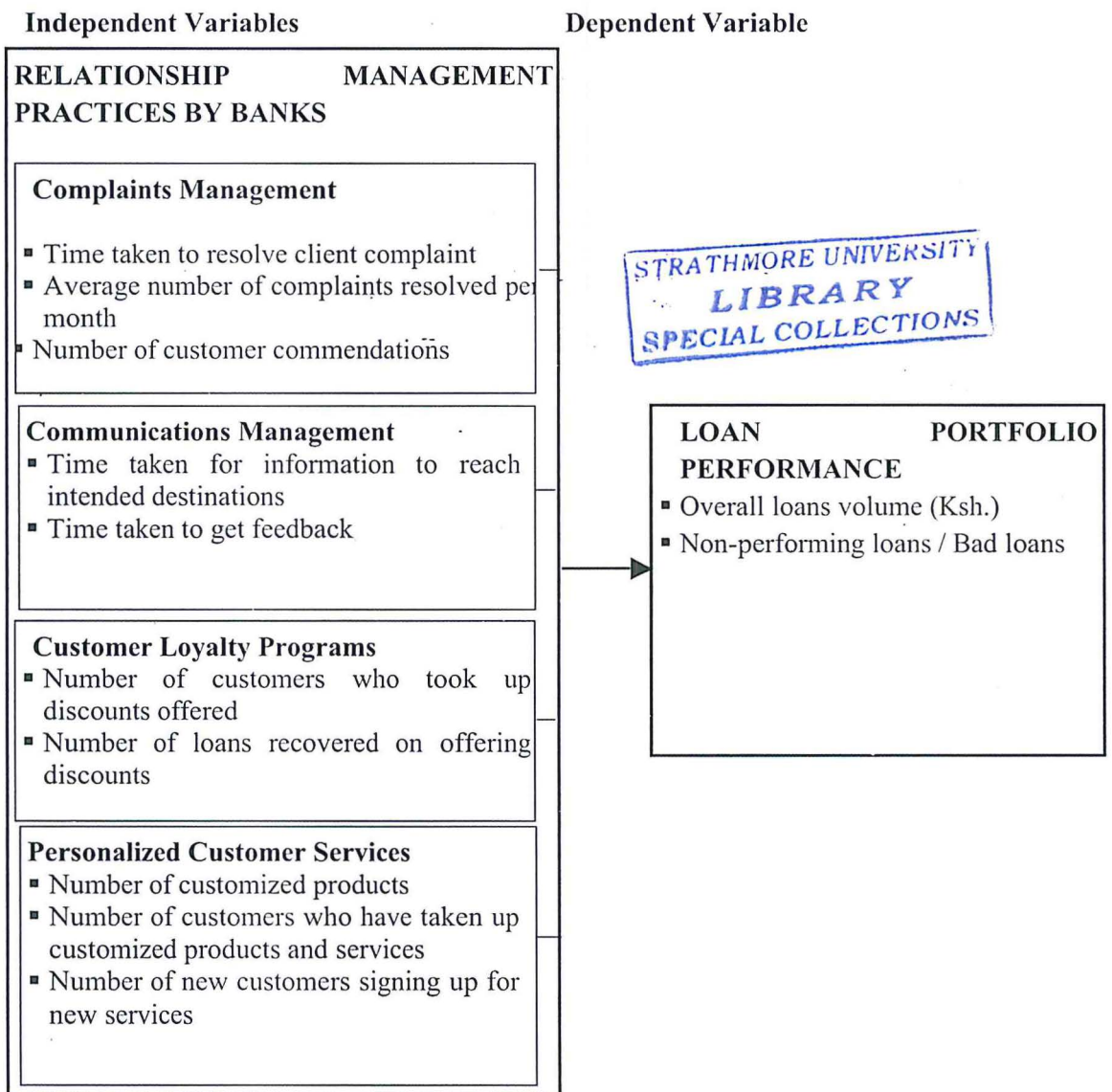


Figure 2.1: Conceptual Framework

Source: Author (2019)

The study seeks to determine the effect of relationship management practices such as complaints management, communications management, loyalty programs and personalized customer services on loan portfolio performance of commercial banks in Kenya. It thus hypothesizes that the practices will promote loan portfolio performance. The hypothesis on complaints management is supported by (Salim, 2017) since it enables banks to learn from complaints and resolve customer issues and; Gambetta (2015) who notes that complaints management enables banks to correct/rectify errors in their dealings thereby helping enhance performance.

The use of communications management as another relationship management tool has backing from Muchai (2016); Sakwa and Oloko (2014); Adeyeye (2013) and; Mazur (2012) who propose the practice enables banks to share information aimed at promoting sales of its products and services and identification of new needs as well as potential sources of risks.

Loyalty programs and reward schemes have been used to promote performance. Nyarku (2013) notes that the programs promote customer loyalty thus helping boost banks' ability to grow while Beck and Palmatier (2011) contend it is an incentive that gradually enhances consumers' consumption behavior. Hence, the program could be used to influence loans uptake in banks. Personalized customers' services are vital in promoting banks performance and management of customer credit lines. Camarero (2007) proposes preferential treatment, quality service, communication and adaption to customer needs as ways of promoting performance.

Loan Portfolio Performance has been measured in terms of number of persons making applications for loans, total loans issued and the timeliness in repayment of the principle and interest. Githinji (2010) noted that the greatest source of risk among financial institution lies in the loan portfolio as this constitutes the largest asset. However, the level of security on the portfolio will depend on the mix between collateralized and uncollateralized loans. Loans which are in arrears in repayment of principle and interest are said to form a portfolio at risk. Through proper relationship management, commercial banks are able to understand the needs of their customers thus design credit facilities that

suit their needs. By doing this, commercial banks will boost the quality of their loans as the repayments will come in schedule. Banks also compute the ratio of loan losses to the average portfolio in determination of loan portfolio quality.

## **2.7 Chapter Summary**

This chapter has reviewed three theories that provide anchorage to the study. These included the financial intermediation theory, Institutional theory and the Relationship management theory. Each of these theories has been expounded and linked to at least one of the study objectives. The chapter further presented the empirical literature arranged in line with study objectives. It also identifies the gaps in empirical literature reviewed so as to provide a justification for the current study. It further presents a well-illustrated figurative illustration of the dependent and independent variables in a conceptual framework.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology provides a road map of how a researcher wants to proceed to ensure exhaustive response to research questions. It specifically identifies the design to be adopted, population, sampling frame and the sample size, the instruments to be applied in collecting data, procedures to be followed in data collection, the manner in which data was analyzed and presented.

#### **3.2 Research Design**

The study adopted descriptive research design. Kothari and Garg (2015) refer to descriptive research design as the process of collecting data in order to answer questions concerning the current status of the subjects in the study. The choice of descriptive research design is to enable the researcher to describe the influence of various relationship management practices on loan portfolio performance and then report the state of affairs without manipulation.

#### **3.3 Population of the Study**

Kothari and Garg (2015) define population as a complete set of elements, with some common characteristics of interest to the researcher. In this study, the population of the study comprised all 45 licensed commercial banks in Kenya as per Appendix IV distributed in three tiers (CBK, 2019). The banks are classified into three distinct tiers: Tier I, II and III by the Central Bank of Kenya. The weighted composite index on the values of net assets, capital as well as reserves, deposits of customers, number of loans and deposit account all inform the tier system of classification of banks. The study used purposive sampling to select tier 1 banks. There are seven commercial banks in tier I. The focus on tier 1 banks owes to their huge volume of transactions and the large market share they control. Therefore, a total of seven (7) commercial banks (Appendix IV) were included in the study to reduce chances of data redundancy. The study focused on the

seven banks because they cumulatively account for a large market share with a relatively higher size in terms of assets and customer base.

The study concentrated on the head quarter offices of commercial banks because this is the location where key decisions affecting bank operations are formulated.

### 3.4 Sampling Design and Technique

To conduct the study, the researcher visited the headquarters of the seven tier 1 commercial banks based in Nairobi. The study targeted three key resource departments from each of the seven banks (Portfolio managers in the loans and credit department, Customer Care managers and Sales and Marketing managers). These departments were selected because of their key involvement in matters relating to relationship management. The respondents are distributed as shown in Table 3.1 below:

**Table 3.1: Respondents Distribution**

| Bank Name         | Department          | Respondents |
|-------------------|---------------------|-------------|
| BBK               | Customer care       | 6           |
|                   | Sales and marketing | 4           |
|                   | Loans and Credits   | 6           |
| Co-operative Bank | Customer care       | 6           |
|                   | Sales and marketing | 6           |
|                   | Loans and Credits   | 6           |
| Equity Bank       | Customer care       | 6           |
|                   | Sales and marketing | 6           |
|                   | Loans and Credits   | 6           |
| KCB               | Customer care       | 6           |
|                   | Sales and marketing | 6           |
|                   | Loans and Credits   | 7           |
| CBA               | Customer care       | 6           |
|                   | Sales and marketing | 4           |
|                   | Loans and Credits   | 7           |
| SCB               | Customer care       | 6           |
|                   | Sales and marketing | 6           |
|                   | Loans and Credits   | 7           |
| DTB               | Customer care       | 6           |
|                   | Sales and marketing | 4           |
|                   | Loans and Credits   | 7           |
| <b>Total</b>      |                     | <b>124</b>  |

Source: (Human Resource Departments, 2019)

Sampling frame refers to a list of all units within the population of interest from which a sample is to be drawn (Wanga, 2013). Sampling frame needs to be accurate, correct and all-inclusive so as to allow for collection of data from all elements with observable characteristics in the study. The sampling frame in this study comprised all the seven tier I commercial banks in Kenya as per Appendix IV.

Ogula (2005) refers to sampling as a procedure, process or technique of choosing a sub-group from a population to participate in the study. The study focused on three key departmental heads (Portfolio managers in the loans and credit department, Customer care managers and Sales and Marketing managers) in the seven tier 1 banks because of the key role they play in matters relating to relationship management.

### **3.5 Data Collection Instruments**

The study collected both primary and secondary data. Primary data was collected using a questionnaire (refer to appendix III) while a data collection schedule was used to collect secondary data from the financial statements of Tier I commercial banks as provided by the Central Bank of Kenya (refer to appendix V). Saunders, Lewis, and Thornhill (2009) define questionnaires as data collection technique in which each person is asked to respond to the same set of questions in a predetermined order. Questionnaire was the most appropriate instrument in this study due to its ability to collect a large amount of information in a reasonably quick span of time is economical and guarantees confidentiality of the source of information through anonymity while ensuring standardization of data. In this study, both structured and unstructured questionnaires was be used to collect data from the respondents. The structured questionnaire consisted of five (5) point likert scale questions broken down into three (3) sub subsections: subsection A collected data on the demographic characteristics; subsection B collected data on respondents' perception on the influence of various relationship management practices on loans performance, namely complaints management, communications management, customer loyalty programs and personalized customer services and; sub section C collected data on the current state of loans portfolio performance in the banks.

The validity of the data collection instrument was validated for both content and face validity so as to ensure that it measured what it was supposed to measure. Creswell (2008) contend this assures accuracy and meaningfulness of inferences based on the research results. To ascertain content validity, an internal control expert (supervisor) was consulted to review the instruments for content coverage and to ascertain its face validity as well as to give subjective evaluation on the appropriateness of the research instruments.

In administering questionnaires to the respondents, both face-to-face and delivery and collection methods was utilized. Face-to-face method enabled clarification of any issues with instructions or meaning of particular items and to control the amount of time taken to fill the questionnaire while the delivery and collection method was used on those who cannot respond to the questionnaires immediately due to tight work schedules or other reasons.

### **3.6 Data Analysis**

Saunders et al. (2009) describe data analysis as the processing of data to make meaningful information. In this study, the data obtained from the questionnaires was adequately checked for reliability and verification of the responses received. Thereafter the data was edited, coded and analyzed using Statistical Package for Social Sciences [SPSS]. To enhance clarity of the quantitative data, the results were analyzed using descriptive statistics such as the central measures of construct – mean and standard deviation. The qualitative data generated from the open-ended questions were organized into various themes and patterns after which the information from the data was analyzed and examined before drawing conclusions on the basis of evidence from the study.

### **3.7 Research Quality**

Research quality was ensured by observing external and internal validity and reliability of data (Wang et al., 2015). External validity is concerned with data's ability to be generalized on the population of interest. Internal validity was attained through tackling content and constructs validity. Content reliability was ensured by comparing this study instrument to previous studies that have verified and used the measurement scales that

this study makes use of (Saunders et al., 2016). Construct reliability was confirmed by use of Cronbach's Alpha values which are required to be above 0.7 (Wang et al., 2015).

Pilot testing was carried out to pre-test the study instrument so as get rid of ambiguous questions and improve its appropriateness for the study objectives (De Vaus, 2014). A pilot study involved 13 respondents in tier II banks in Kenya because they operate on the same model as Tier I. The study selected 10% (13) of the respondents as indicated by Saunders et al. (2016) that 10% of the population is adequate for piloting in social studies. The study made use of random sampling in selecting bank officers to respond in the pilot because it offers every member of the pilot population equal chance of inclusion in the study. Responses collected from the pilot study helped in refining the data collection instrument besides availing valuable experience to the researcher on how to conduct the main data collection. The pilot data was not included in the final data analysis report.

### **3.8 Ethical Consideration**

The term ethics is used to denote the study of the right and wrong and the morality of choices individuals make (Shamoo & Resnick, 2009). The study took into consideration key ethical issues to cushion the rights of research participants. The study was also carried out in an honest and transparent manner so that no respondent provided information under duress. The principle of voluntary participation shall be complied with that requires the participants was not coerced into participating in the research. In addition, to be considered, relating to the notion of voluntary participation is the need to comply with informed consent and confidentiality. The principle of anonymity of the respondents was also respected which essentially means that the participants shall remain anonymous throughout without their identities revealed.

In conducting the research study, permission was sought from relevant authorities. First, an authorization letter was sought from the Strathmore University Institutional Ethics Review Committee to be used in seeking for permission to gather information from the selected commercial banks in Nairobi as well as research authorization permit from National Commission for Science, Technology and Innovation [NACOSTI].

## CHAPTER FOUR

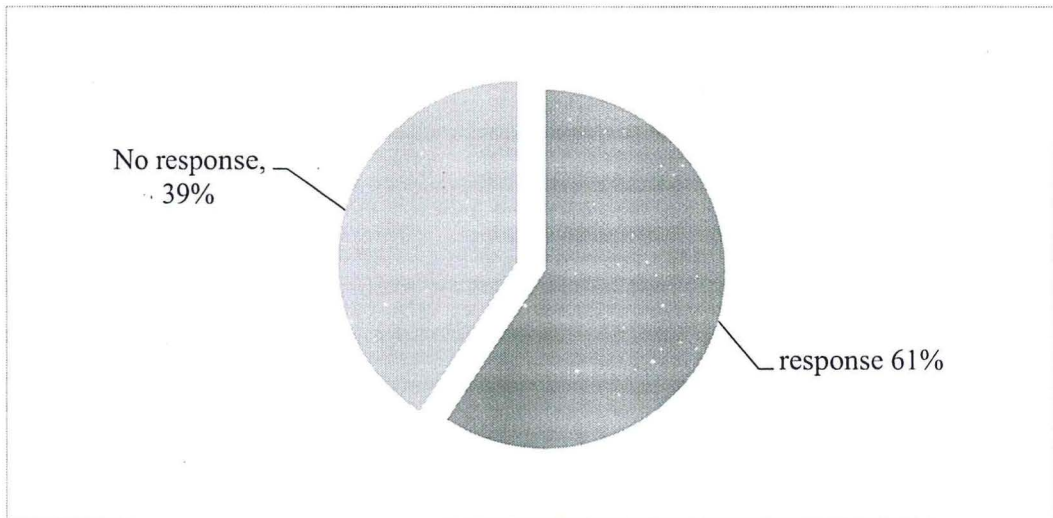
### DATA ANALYSIS AND INTERPRETATION

#### 4.1 Introduction

This chapter concentrates on data as collected from the field so as to provide meaningful information that will help draw conclusions. The study collected both primary and secondary data using a questionnaire and secondary data collection sheet. The information is arranged in distinct sections: background information and descriptive statistics per variable.

##### 4.1.1 Response Rate

The study distributed a total of 124 questionnaires out of which 76 were filled up and returned translating into a response rate of 61% as shown in the Figure 4.1. Some of the factors that may have contributed towards this low response rate include the fact that respondents who might have been busy and thus unable to fill in the questionnaires.



**Figure 4. 1: Response Rate**  
**Source; Research Data (2019)**

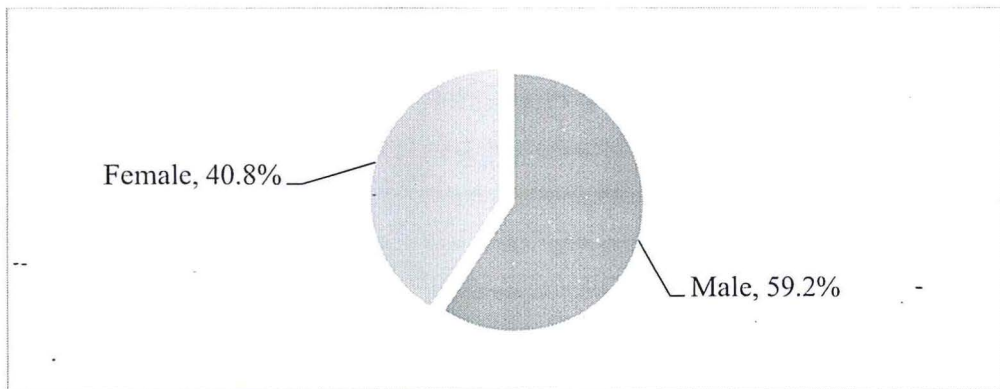
The response rate was sufficient and concurred with Yin (2017) that studies supported by response rate above 60% are good for analysis and presentation of the findings.

## 4.2 General Information

The study sought to determine general information about the respondents that were involved in the study. The findings on this were recorded in the following subsequent Tables.

### 4.2.1 Gender Distribution

The gender distribution of the respondents of the study is shown in Figure 4.2.



**Figure 4.2: Gender Distribution**  
Source; Research Data (2019)

From Figure 4.2, male occupied a larger percentage of respondents with 59.2% followed by female who were at 40.8%. Thus, both male and female respondents were involved in the study which brought resulted into diverse views and opinions on relationship management practices.

### 4.2.2 Age Category of Respondents

The findings on age distribution of the respondents of the study are shown in Table 4.1.

**Table 4.1: Age Category of respondents**

| Age Category       | Frequency | Percent    |
|--------------------|-----------|------------|
| between 18-35      | 26        | 34         |
| between 36 - 55    | 41        | 54         |
| 56 years and above | 9         | 12         |
| <b>Total</b>       | <b>76</b> | <b>100</b> |

Source; Research Data (2019)

From the findings in Table 4.1, most of the respondents (54%) were 36-55 years, 34% were 18-35 years and 12% were over 56 years. This shows that respondents of the study were mature enough and thus gave reliable information on loan portfolio performance as sought by the study.

#### 4.2.3 Highest Level of Education Attained

The highest levels of education by the respondents of the study are shown in Table 4.2.

**Table 4.2: Highest level of Education Attained**

| Level of education | Frequency | Per cent   |
|--------------------|-----------|------------|
| College            | 11        | 14         |
| Undergraduate      | 47        | 62         |
| Post graduate      | 18        | 24         |
| <b>Total</b>       | <b>76</b> | <b>100</b> |

**Source; Research Data (2019)**

Table 4.2 shows that majority of respondents (62%) were undergraduates, 24% were post graduates while 14% were college students. It can be inferred from this findings that respondents who took part in the study were learnt and thus were knowledgeable on relationship management practices and how they influence performance of their respective banks.

#### 4.2.4 Years of Experience

The number of years that respondents had worked in the bank is shown in Table 4.3.

**Table 4.3: Period Worked in the Bank**

| Period         | Frequency | Per cent   |
|----------------|-----------|------------|
| Below 5 years  | 25        | 33         |
| 5-10 years     | 34        | 45         |
| above 10 years | 17        | 22         |
| <b>Total</b>   | <b>76</b> | <b>100</b> |

**Source; Research Data (2019)**

The findings in Table 4.3 established that majority of the respondent had been working in the institution for between 5-10 years with 45%, followed by below 5 years with 33%

and lastly above 10 years being 22%. This finding indicates that respondents of the study had been in the banking industry for a relatively longer period of time and thus were knowledgeable on relationship management practices and their influence on performance of their respective banks.

### 4.3 Complaints Management and Loan Portfolio performance

In order to ascertain the extent that complaints management affected loan portfolio performance among tier one commercial banks in Kenya, the study proposed a number of statements on which the respondents were required to indicate the extent that they applied in their banks. The statements were prepared on a five point Likert scale from which mean and standard deviation were computed as shown in the Table below:

**Table 4.4: Complaints Management and Loan Portfolio Performance**

| Statements  | Mean   | Std. Dev |
|---|--------|----------|
| Our bank has a system for capturing customer complaints for better loans management   | 3.9247 | 0.8671   |
| Our bank has a system in place for tracking of customer complaints for better loans management  | 3.8597 | 1.0283   |
| The customer complaints management system automatically escalates complaints once not solved within agreed timeframe for better loans management        | 3.9158 | 0.9736   |
| The Complaints management system avails reports on how complaints have been handled within any given period for better loans management                 | 4.2178 | 0.7972   |
| Our complaints management system influences the repayment of loans by customers for better loans management   | 3.5184 | 1.0318   |
| Paying necessary attention to clients' complains in relation to loans improves overall loans repayment in our Bank for better loans management          | 3.9630 | 0.8472   |
| Resolving customer complains in good time enhances loans repayment in our Bank for better loans management  | 3.8135 | 0.8639   |
| Apologizing to customers' for complaints made promotes loans repayment in our Bank  | 3.4914 | 1.0528   |
| Making corrections on areas of shortcomings in our operations resulting in customer complaints helps improve loan repayment for better loans management | 4.1437 | 0.8361   |

**Source; Research Data (2019)**

From the findings in Table 4.4, the respondents indicated that the complaints management system avails reports on how complaints have been handled within any given period for better loans management, which was represented by a mean of 4.21 at a distribution rate of 0.797. The respondents also indicated that making corrections on areas of shortcomings in their operations resulting in customer complaints helps improve loan repayment for better loans management presented by a mean of 4.14 at a distribution rate of 0.836. The respondents revealed that paying necessary attention to clients' complaints in relation to loans improves overall loans repayment in their Bank for better loans management represented by a mean of 3.96 and a distribution rate of 0.847.

The respondents also revealed that their bank has a system for capturing customer complaints for better loans management presented by a mean of 3.92 and has a distribution rate of 0.867. The respondents established that the customer complaints management system automatically escalates complaints once not solved within agreed timeframe for better loans management as indicated by its mean of 3.91 and distribute at rate of 0.973. The respondents also established that their bank has a system in place for tracking of customer complaints for better loans management as indicated by its mean of 3.85 and distribute at a rate of 1.028.

The respondents indicated that resolving customer complaints in good time enhances loans repayment in their Bank for better loans management presented by a mean of 3.81 and has a distribution rate of 0.863. The respondents revealed that their complaints management system influences the repayment of loans by customers for better loans management as indicated by its mean of 3.51 and distribute at rate of 1.031. The respondents disagreed that apologizing to customers' for complaints promotes loans repayment in their Bank presented by a mean of 3.49 at a distribution rate of 1.052

#### **4.3.1 Ways used by Tier I banks to Resolve Customers' Complaints**

The study sought to identify the different strategies adopted by tier I banks in resolving customer complaints for improved loan portfolio performance. From the responses, it was established that the banks engaged in regular employee training on the importance of

timely resolution of customer complaints. The respondents indicated that their banks organized regular customer care and credit administration training both in-house and outside the banks for employees to learn the changing customer demands and how well to deal with them. The trainings also equipped employees with the necessary skills in the execution of their work. Some respondents also indicated that their banks automated complaints management processes where service level agreements were agreed upon and captured in the complaints management system. The system made tracking and resolution of management easy. The system allocated complaints to specific officers with clear instructions on the time for resolution.

#### 4.4 Communications Management and Loan Portfolio Performance

The findings on communication management and its influence on loan portfolio performance are shown in Table 4.5.

**Table 4.5: Communications Management and Loan Portfolio Performance.**

| <b>Statements</b>   | <b>Mean</b> | <b>Std. Dev</b> |
|---|-------------|-----------------|
| Our bank has an efficient communication system for better loans management  | 3.72        | 1.065           |
| Information flows across our Bank smoothly for better loans management  | 3.69        | 1.020           |
| Exchange of information within our bank influences the repayment of loans by our customers for better loans management  | 3.80        | .938            |
| Our Bank sends customers customized messages to encourage them repay their loans for better loans management  | 3.97        | 1.019           |
| The manner that our bank managed its communication system affects the repayment of loans by our customers for better loans management   | 3.51        | .791            |
| Informing customers on the importance of timely repayment of loan repayment installments helps improve the overall repayment of loans in our Bank for better loans management | 3.89        | .888            |
| Informing customers on the importance of full repayment of loan received helps improve the overall repayment of loans in our Bank   | 3.68        | 1.073           |
| Advising customer on financial management has helped our bank improve repayment of loans by its customers for better loans management   | 3.56        | .788            |
| Responding to customer requests on a timely basis improves the repayment of loans in our Bank for better loans management   | 3.81        | 1.162           |

**Source; Research Data (2019)**

From Table 4.5, respondents indicated that their Bank sends customers customized messages to encourage them repay their loans for better loans management as indicated by its mean of 3.97 and distribute at rate of 1.019. The respondents also indicated that informing customers on the importance of timely repayment of loan repayment installments helps improve the overall repayment of loans in their Bank for better loans management as indicated by its mean of 3.89 and distribute at rate of 0.888. The respondents established that responding to customer requests on a timely basis improves the repayment of loans in their Bank for better loans management presented by a mean of 3.81 at a distribution rate of 1.162. The respondents also established that exchange of information within their bank influences the repayment of loans by their customers for better loans management presented by a mean of 3.80 at a distribution rate of 0.938.

The respondents established that their bank had an efficient communication system for better loans management as indicated by its mean of 3.72 and distribute at rate of 1.065. The respondents revealed that information flowing across their Bank smoothly promoted better loans management presented by a mean of 3.69 at a distribution rate of 1.020. The respondents also revealed that advising customers on financial management has helped their bank improve repayment of loans by its customers for better loans management presented by a mean of 3.56 at a distribution rate of .788. The respondents identified that the manner that their bank managed its communication system affects the repayment of loans by their customers for better loans management as indicated by its mean of 3.51 and distribute at rate of 0.791.

#### **4.4.1 Ways that banks ensured effective communication with customers**

The study sought to identify the different strategies adopted by banks in ensuring that there is effective communication for improved loan portfolio performance. From the responses, it was established that the banks have ensured that their customers service providers and the staff puts priority to first impression. The respondents indicated that their banks have also ensured that the customers are put on hold for minimal time. Some respondents also indicated that their banks had stated clearly that they give customer service calls a priority.

#### 4.5 Customer Loyalty Programs and Loans Portfolio Performance

The findings on customer loyalty and its influence on loan portfolio performance are shown in Table 4.6.

**Table 4.6: Customer Loyalty Programs on Loans Portfolio Performance**

| <b>Statements</b>  | <b>Mean</b> | <b>Std. Dev</b> |
|--|-------------|-----------------|
| Our bank offers discounts to loan customers to promote repayment   | 3.92        | .920            |
| Our bank offers rebates to loan customers for timely repayment of loans to encourage them repay on time                      | 3.85        | .933            |
| Our Bank has segmented its customers according to needs to improve their repayment of loans                                  | 3.90        | .897            |
| Our bank offers interest holidays to encourage customers to repay their loans  | 4.22        | .809            |
| Our bank offers repayment grace period to encourage its customers to repay their loans                                       | 3.51        | .702            |
| Our bank review customers' consumption behavior to develop rewards that suit their needs to encourage them repay their loans | 3.96        | .886            |
| Our Bank awards customers points every time they repay their loan installments on time                                       | 3.81        | .989            |
| Loyal customers have fewer processes when applying for credit facilities   | 3.52        | .958            |

**Source; Research Data (2019)**

From the findings in Table 4.6, the respondents indicated that their bank offers interest holidays to encourage customers to repay their loans presented by a mean of 4.22 at a distribution rate of .809. The respondents also indicated that their bank review customers' consumption behavior to develop rewards that suit their needs to encourage them repay their loans presented by a mean of 3.96 at a distribution rate of 0.886. The respondents established that their bank offers discounts to loan customers to promote repayment as indicated by its mean of 3.92 and distribute at rate of 0.920. The respondent also established that their Bank has segmented its customers according to needs to improve their repayment of loans presented by a mean of 3.90 at a distribution rate of 0.897. The respondents established that their bank offers rebates to loan customers for timely repayment of loans to encourage them repay on time as indicated by its mean of 3.85 and distribute at rate of 0.933. The respondents also identified that their Bank awards customers points every time they repay their loan installments on time presented by a mean of 3.81 at a distribution rate of 0.989. The respondents identified that loyal

customers have fewer processes when applying for credit facilities as indicated by its mean of 3.52 and distribute at rate of 0.958. The respondents also identified that their bank offers repayment grace period to encourage its customers to repay their loans presented by a mean of 3.51 at a distribution rate of 0.702.

#### 4.5.1 Loyalty Programs used by Tier I Banks in Kenya

The study sought to identify the different Loyalty Programs adopted by Tier I Banks. From the responses, it was established that the banks used capital one purchase erasure, which help customers accrue points towards travel. The respondents indicated that their banks also used Wells Fargo customer relationship discount regularly which offers reduced rates on car and student loans as well as other perks such as no ATM fees and discounts on safety deposit boxes. Some respondents also indicated that their banks offers A's loyalty program which rewards students aged 12-18 for good grades.

#### 4.6 Personalized Customer Services on Loans Portfolio Performance

Table 4.7 presents the findings on personalized customer services and their influence on loan portfolio performance among Kenyan commercial banks.

**Table 4.7: Personalized Customer Services on Loans Portfolio Performance**

| <b>Statements</b>   | <b>Mean</b> | <b>Std. Dev</b> |
|---|-------------|-----------------|
| Our bank has developed customized financial services for its diverse customers for better uptake                            | 3.73        | 1.062           |
| Availing customized financial services has helped the Bank motivate its customer to repay loans                             | 3.72        | 1.014           |
| Our Bank has customized occasional messages for its customers (i.e. Birthdays, public holidays) to promote customer service | 3.61        | 1.154           |
| Our bank offers preferential services to customers who repay their loans in full for improved overall loan performance      | 3.90        | 1.133           |
| Our bank offers preferential treatment to customers who repay their loans on time for improved overall loan performance     | 3.63        | .830            |
| Personalized services have promoted loan repayment in our bank  | 3.85        | .933            |
| Our bank provides customized products that influence repayment of loans   | 3.69        | 1.200           |
| Preferential treatment of loan applicants by our Bank promote better loans performance                                      | 3.52        | .886            |
| Personalized customer services promote customer satisfaction for enhanced loans portfolio performance                       | 3.93        | 1.099           |

**Source; Research Data (2019)**

From the findings in Table 4.7, the respondents established that personalized customer services promote customer satisfaction for enhanced loans portfolio performance presented by a mean of 3.93 at a distribution rate of 1.099. Respondents also indicated that their bank offers preferential treatment to customers who repay their loans on time for improved overall loan performance time as indicated by its mean of 3.90 and distribute at rate of 1.133. The respondents identified that personalized services have promoted loan repayment in their bank presented by a mean of 3.85 at a distribution rate of .933. The respondents revealed that banks have developed customized financial services for its diverse customers for better uptake as indicated by its mean of 3.73 and distribute at rate of 1.062.

The respondents also revealed that availing customized financial services has helped the Bank motivate its customer to repay loans presented by a mean of 3.72 at a distribution rate of 1.014. The respondents revealed that their bank provides customized products that influence repayment of loans as indicated by its mean of 3.69 and distribute at rate of 1.200. The respondents indicated that their bank offer preferential treatment to customers who repay their loans on time for improved overall loan performance presented by a mean of 3.63 at a distribution rate of .830. The respondents established that their Banks have customized occasional messages for its customers (i.e. Birthdays, public holidays) to promote customer service as indicated by its mean of 3.61 and distribute at rate of 1.154. The respondent identified that preferential treatment of loan applicants by their Bank promote better loans performance presented by a mean of 3.52 at a distribution rate of .886.

#### **4.6.1 Personalized Customer Services offered to Customers**

The study sought to identify the different personalized customer services adopted by Tier I Banks. From the responses, it was established that the banks called their frequent customers by names. This was used in email messages, chats, one on one and on calls. The respondents indicated that their banks implemented loyalty programs by giving their customers points this was especially done online through digital loyalties. Some

respondents also indicated that their banks offered multiple customer service channels to reduce waiting time.

#### 4.7 Loan Portfolio Performance

The findings on the dependent variable, which was loan portfolio performance of the study, are shown in Table 4.8.

**Table 4.8: Loan Portfolio Performance**

| <b>Statements</b>  | <b>Mean</b> | <b>Std. Dev</b> |
|--|-------------|-----------------|
| The probability of our customers repaying their loans has been on the increase over the past five years              | 3.80        | 1.033           |
| The interest income for our Bank has been on the increase over the last five years                                   | 3.73        | 1.037           |
| Our bank accurately identifies risks associated with lending to our customers  | 3.92        | .890            |
| The risks associated with lending activities in our Bank are communicated to management regularly                    | 4.01        | .999            |
| The level of nonperforming loans in our Bank has been declining over the last five years                             | 3.44        | 1.050           |
| The collateral pledged by loan applicants in most cases is sufficient  | 3.64        | 1.229           |
| Majority of our loan beneficiaries make their installment repayments on a timely basis                               | 3.75        | 1.059           |
| The amount recovered on disposal of collateral on loan default is normally sufficient to cover the outstanding loans | 3.51        | .945            |
| The amount of loans repaid as a percentage of loans issued has been increasing over the last five years              | 4.05        | .877            |
| The number of persons applied for loans in our bank has increased over the last five years                           | 3.53        | .773            |
| The provision for bad debts in our bank has increased over the last five years                                       | 4.07        | .920            |

**Source; Research Data (2019)**

As shown in Table 4.8, respondents indicated that the provision for bad debts in their bank has increased over the last five years presented by a mean of 4.07 at a distribution rate of .920. The respondent identified that the amount of loans repaid as a percentage of loans issued has been increasing over the last five years presented by a mean of 4.05 at a distribution rate of .877. The respondents established that the risks associated with lending activities in their Bank are communicated to management regularly as indicated by its mean of 4.01 and distribute at rate of 0.999. The respondent also indicated that

their bank accurately identifies risks associated with lending to our customers presented by a mean of 3.92 at a distribution rate of .890.

The respondent revealed that the probability of their customers repaying their loans has been on the increase over the past five years as indicated by its mean of 3.80 and distribute at rate of 1.033. The respondent indicated that majority of their loan beneficiaries make their installment repayments on a timely basis presented by a mean of 3.75 at a distribution rate of 1.059. The respondents established that the collateral pledged by loan applicants in most cases is sufficient as indicated by its mean of 3.64 and distribute at rate of 1.229. The respondent revealed that the number of persons applied for loans in their bank has increased over the last five years as indicated by its mean of 3.53 and distribute at rate of 0.773. The respondents identified that the amount recovered on disposal of collateral on loan default is normally sufficient to cover the outstanding loans presented by a mean of 3.51 at a distribution rate of .945. The respondent disagreed that the level of nonperforming loans in their Bank has been declining over the last five years as indicated by its mean of 3.44 and distribute at rate of 1.050.

#### 4.8 Secondary Data

The secondary data collected through the data collection sheet is shown in Table 4.9.

**Table 4.9: Secondary Data**

| Period  | 2014      | 2015      | 2016      | 2017      | 2018    |
|---|-----------|-----------|-----------|-----------|---------|
| Number of credit applicants                               | 2,292,198 | 2,485,920 | 2,618,390 | 2,899,993 | 3769991 |
| Overall loans volume (Ksh.)                               | 1,881,024 | 2,091,361 | 2,182,631 | 2,013,610 | 2617693 |
| Average time taken to resolve customer complaints         | 15 days   | 11 days   | 10 days   | 9 days    | 7 days  |
| Average complaints resolved                               | 40        | 35        | 27        | 23        | 17      |
| Number of customer commendations                          | 50        | 65        | 53        | 49        | 51      |
| Time taken for information to reach destinations          | 8 days    | 6 days    | 5 days    | 4 days    | 2 days  |
| Time to get feedback on issues                            | 7 days    | 5 days    | 4 days    | 3 days    | 2 days  |
| Number of customers who took up discounts offered         | 130       | 153       | 163       | 171       | 189     |
| Number of loans recovered on offering discounts           | 564307    | 836544    | 1309579   | 1409527   | 2094154 |
| Number of customized products                             | 4         | 5         | 7         | 8         | 11      |
| Number of customers who have taken up customized products | 182       | 243       | 275       | 308       | 359     |
| Number of new customer signing up for new products        | 965       | 1531      | 2063      | 2680      | 3411    |

**Source; Research Data (2019)**

From Table 4.9, there has generally been an increase in number of credit applicants, loan volumes, customer commendations, number of customers who took up discounts offered, number of loans recovered on offering discounts, number of customized products, number of customers who have taken up customized products and the number of new customers signing up for new products. This increase is attributed to customer relationship management practices in place. On the other hand, commercial banks on average have witnessed a drop in the average time taken to resolve customer complaints, average complaints resolved, and time taken for information to reach destinations and time to get feedback on issues. This decrease is also attributed to the customer relationship management that commercial banks have embraced.

## **CHAPTER FIVE**

### **DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter is divided into sections including a discussion, conclusions and recommendations. Each of the sections is informed by the specific objectives. The recommendations are for policy and practices and areas that further studies can be carried out to cover.

#### **5.2 Discussions**

The general objective of the study was to determine the effect of relationship management practices on commercial banks' loans portfolio performance in Nairobi, Kenya. The specific variable objectives of the study included complaints management, communications management, customer loyalty programs and their effect on loans portfolio performance of commercial banks in Nairobi, Kenya.

##### **5.2.1 Complaints Management on Loan Portfolio Performance**

The study established that the complaints management system avails reports on how complaints have been handled within any given period for better loans management. This finding is in line with Salim et al. (2017) who established that complaints management as one of the relationship management practices refers to the approaches organizations use to resolve complaints or disputes. The study also indicated that making corrections on areas of shortcomings in our operations resulting in customer complaints helps improve loan repayment for better loans management presented. This finding is in line with Kotler and Armstrong (2014) who argued that customers whose complaints have been sufficiently handled are key candidates of loyal customers. They stand a high chance of feeling indebted to the institution and would always want to be associated with the organization.

The study revealed that paying necessary attention to clients' complaints in relation to loans improves overall loans repayment in the Bank for better loans management

represented. The study also revealed that their bank has a system for capturing customer complaints for better loans. This finding is supported by Tronvoll (2012) who noted that complaints are a way of expression by customers of their dissatisfaction in the product or service offered by an organization. It may either be formal or informally communicated but the manner in which such complaints are handled have a great bearing on the long-term performance. The study established that the customer complaints management system automatically escalates complaints once not solved within agreed timeframe for better loans management. This finding is concurrent with Kaura, Prasad and Sharma (2015) who noted that complaints management is the flashpoint at which a bank can gain a lifelong customer or risk losing a valued customer for life.

The study also established that tier I bankshad systems in place for tracking of customer complaints for better loans management. This finding is in line with Kompas (2016) who indicated that not paying attention to customer complaints might cause considerable losses in today's business environment. The study indicated that resolving customer complaints in good time enhances loans repayment in tier I banks for better loans management. This finding also concurred with Filip (2013) who indicated that complaints management provides banks with unique and valuable insights into the experiences of their customers, enables banks to learn from complaints so as to improve on how to work and provide best services possible to customers.

The study revealed that their complaints management system influences the repayment of loans by customers for better loans management. This finding is in line with Yilmaz et al. (2016) who examined learning from complaints influence performance both in the short and long term in a positive manner. The study identified that apologizing to customers' for complaints did not promote loans repayment in their Bank. This finding is concurrent with Gambetta et al. (2015) who found out those financial institutions with higher amendment ratio were inefficient, had high liquidity, were highly profitable and were sensitive to market risks within the banking business.

The study established that the banks engaged in regular employee training on the importance of timely resolution of customer complaints, banks organized regular

customer care and credit administration training both in-house and outside the banks for employees to learn the changing customer demands and how well to delight them and banks automated complaints management process where service level agreements were agreed upon and captured in the complaints management system. The system made tracking and resolution of management easy. The system allocated complaints to specific officers with clear instructions on the time for resolution. These findings is in line with PwC (2014)report that revealed that a strong complaint management program was crucial to customer retention and bottom-line profitability of American banks and that 55% of retail banking customers surveyed would most likely stay loyal to their institutions as long as their issues were positively resolved. The report further indicated that financial institutions with well-established complaint management programs would most likely benefit from adapting to changing expectations from regulators and customers.

#### **5.2.2 Communications Management on Loan Portfolio Performance**

The study indicated that tier I banks sends customers customized messages to encourage them repay their loans for better loans management. This finding is in line with Muchai (2016) who stated that Communication is the process of exchanging meanings between individuals or groups as expressed through a system of symbols, signs and behaviors. The study also indicated that informing customers on the importance of timely repayment of loan repayment installments helps improve the overall repayment of loans in their Bank for better loans management. This finding is supported by Mazur (2012) who noted that establishment of good communication channels facilitate sharing information and enhances relationship building. The study established that responding to customer requests on a timely basis improves the repayment of loans in their Bank for better loans management. This finding is concurrent with Nyarku (2013) who established that for relationship management system to be successful, it must ensure all those concerned have the same information available to everyone in the company so that customers' needs are effectively met. This implies that customers must be the main focus of banking institutions, must be empowered and that their information must be relied upon by banks in order to attend to them effectively.

The study also established that exchange of information within the bank influences the repayment of loans by customers for better loans management. This finding is supported by Sakwa and Oloko (2014) who found that communication positively increases banks performance. It enables banks to determine the new needs of customers and thus plan to avail such needs. It also ensures customer queries are responded to appropriately and ensures standing instructions and reports are carried out automatically and promptly thus guaranteeing realization of a positive performance in the banking sector. This study seeks to establish the effect of effective communication on commercial banks loans portfolio.

The study established that Tier I banks had efficient communication system for better loans management. This finding occurred with Adeyeye (2013) who established banks can use effective communication, as one of the relationship management strategies, as a tool to improve their loans portfolio and to take competitive advantage. The study revealed that information flows across their Bank smoothly for better loans management. This finding is in line with Jayakumar and Sathiya (2011) who found that commercial banks strive to ensure enhanced communication with their customers through both general and promotional communication including information pamphlets and banners to display information to customers.

The study also revealed that advising customers on financial management has helped their bank improve repayment of loans by its customers for better loans management. This finding is supported by Krasnikov et al. (2010) who indicated that RM implementation improved the ability of firms to customize the offerings by communicating effectively and providing timely feedback to the customers. The study identified that the manner in which their bank managed its communication system affects the repayment of loans by their customers for better loans management. This finding is in line with Sakwa and Oloko (2014) who found that communication positively increases banks performance. It enables banks to determine the new needs of customers and thus plan to avail such needs. It also ensures customer queries are responded to appropriately and ensures standing instructions and reports are carried out automatically and promptly on thus guaranteeing realization of a positive performance in the banking sector. This

study seeks to establish the effect of effective communication on commercial banks loans portfolio.

The study established that the banks have ensured that their customers service providers and the staff puts priority to first impression. Banks have also ensured that the customers are put on hold for minimal time and banks had stated clearly that they give customer service calls a priority. This finding is concurrent with Nyarku (2013) who established that for relationship management system to be successful, it must ensure all those concerned have the same information available to everyone in the company so that customers' needs are effectively met. This implies that customers must be the main focus of banking institutions, must be empowered and that their information must be relied upon by banks in order to attend to them effectively.

### **5.2.3 Customer Loyalty Programs on Loans Portfolio Performance**

The study indicated that Tier I banks offer interest holidays to encourage customers to repay their loans. This finding is in line with Mwangi (2010) who noted customer loyalty programs enhance relationships between customers and helps companies to increase their chances of profitability since loyal customers are a source of consistent revenue over a given duration. The study also indicated that tier I banks review customers' consumption behavior to develop rewards that suit their needs to encourage them repay their loans. This finding is supported by Henderson, Beck and Palmatier (2011) who contend that loyalty program is an incentive that gradually enhances a consumers' consumption behavior. The study established that tier I banks offers discounts to loan customers to promote repayment. This finding is in line with Nyarku (2013) who explained that maximizing customer loyalty through close, positive and durable relationships is critical in boosting banks' ability to grow. However, customer loyalty is a concept with different dimensions; it can be measured on the basis of customers' behavior as can be seen in customer consistency and repeat purchases or it can be measured on the basis of customers' attitude as indicated by customers' emotional and psychological attachment.

The study also established that tier I banks have segmented their customers according to needs to improve their repayment of loans. This finding concurs with Steinhoff and Palmatier (2014) who contend that many of the programs perform poorly thereby pointing out that they do not contribute to bottom line performance of banks. The study established that their bank offers rebates to loan customers for timely repayment of loans to encourage them repay on time. This finding is concurrent with Jitesh et al. (2011) who found that relationship management might not lead to improvement in profits at least in the Indian banking industry. In this respect, it could be taken that customer loyalty programmes, as one of relationship management practices, may not promote actual loan repayment by bank customers thereby helping enhance profitability of banks. The study identified that their Bank awards customers points every time they repay their loan installments on time. This finding is in line with Nideau and Singer (2014) who reported that organizations that spend more on loyalty programs grow at equivalent rate or slightly slower rate than organizations that do not have loyalty programs. This means that loyalty programs may not really pay off for organizations that offer them. The study identified that loyal customers have fewer processes when applying for credit facilities.

The study also identified that Tier I banks offer repayment grace period to encourage its customers to repay their loans. This finding concurred with duToit and Burns (2013) who revealed that some banks use while others do not embrace loyalty to improve the economics of their business. The report further revealed that even though in some countries, banks made progress in earning customers' loyalty, however, they were far from exploiting the full potential of loyalty since their sales metric was low. This raises doubt on the actual effect of loyalty programs on banks portfolio performance.

The study established that the banks used capital one purchase erasure, which helps customers accrue points towards travel. Banks also used wells Fargo customer relationship discount regular which offers reduced rates on car and student loans as well as other perks such as no ATM fees and discounts on safety deposit boxes and banks offered A's loyalty program which rewards students aged 12-18 for good grades. This finding is in line with duToit and Burns (2013) who stated that some banks use while

others do not embrace loyalty to improve the economics of their business. The report further revealed that even though in some countries, banks made progress in earning customers' loyalty, however, they were far from exploiting the full potential of loyalty since their sales metric was low. This raises doubt on the actual effect of loyalty programs on banks portfolio performance.

The study established that customer loyalty programs have an influence on loan portfolio performance. This finding is supported by the relationship management theory which was developed by Waters (1989) and it provides guidance on how firms can thrive in a relationship economy by identifying their customers as well as coming up with measures to satisfy and retain them for long term benefits; it is concerned with building bonds with customers to ensure long-term relationships of mutual advantage. Westch (2005) notes that relationship management combines relationship marketing and customer centric approaches to promote customer trust, satisfaction and loyalty by focusing on establishing, maintaining and enhancing relationships with customers as well as creating value for organizations.

#### **5.2.4 Personalized Customer Services on Loans Portfolio Performance**

The study established that personalized customer services promote customer satisfaction for enhanced loans portfolio performance. This finding is in line with Kasiri, Guan, Sambasivan and Samsinar (2017) who explained that personalized customer services are a series of activities by organizations meant to create value and enhance customer satisfaction level. The study also indicated that their bank offers preferential treatment to customers who repay their loans on time for improved overall loan performance time. This finding is supported by Uma and Chandramowleeswaran (2015) who established that customization of services ensures that the unique needs of a customer are met hence boosting the acquisition of distinctive competitive advantage of an organization.

The study identified that personalized services have promoted loan repayment in their bank. This finding is concurrent with Pedro (2012) who acknowledged that application of personalized services in pursuit to increase perceived service quality, trust and customer satisfaction, which are prerequisites for customer loyalty. Organizations in the

service industry can apply customization strategy in boosting the level of overall customer satisfaction and loyalty. The study revealed that banks had developed customized financial services for its diverse customers for better uptake. This finding concurred with Moti et al., (2012) who asserted that a key requirement for effective credit management is the ability to intelligently and efficiently manage customer credit lines. In order to minimize exposure to bad debt, over-reserving and bankruptcies, companies must have greater insight into customer financial strength, credit score history and changing payment patterns.

The study also revealed that availing customized financial services has helped the Bank motivate its customer to repay loans. This finding is in line with Mpaata et al (2017) who found that there is a strong relationship between sustainable customer service and the perceived performance of the bank. As a consequence, the bank also significantly improved on its relationship service marketing strategies in order to preserve its core competence of an international outlook already created. This indicates that customer services, as one of the relationship management practices, can be vital in the determination of banks loans portfolio. The study revealed that their bank provides customized products that influence repayment of loans. This finding is supported by Sakwa and Oloko (2014) who indicated that waiting situation practices, segmentation, multiple service delivery channels and communication affected the performance of the banking sector in the town. This calls for better and efficient ways of increasing customer satisfaction through service delivery in order to improve bank performance.

The study indicated that Tier I banks offer preferential treatment to customers who repay their loans on time for improved overall loan performance. This finding is supported by Njoka (2013) who established that there existed a strong relationship between relationship marketing and banks performance and that that customer care management is one of the key pillars that enhance banks performance. However, in this study, the researcher seeks to test the effect of relationship management practices as measured by customer services on commercial banks loans portfolio. The study established that Banks have customized occasional messages for its customers (i.e. Birthdays, public holidays) to promote customer service. This finding is in line with Awolusi (2012) who explained

that customer service efforts improve business performance. This implies that personalized customer service programs can play a great role in banks' loan portfolio performance.

The study identified that preferential treatment of loan applicants by their Bank promote better loans performance. This finding is concurrent with Camarero (2007) who stated that relational efforts such as preferential treatment, communication and adaptation to customer needs significantly affected firms' market performance and that service quality influenced relationship orientation and market performance. The study established that the banks called their frequent customers by names. This was used in email messages, chats, one on one and on calls. Banks implemented loyalty programs by giving their customers points this was especially done online through digital loyalties. Additionally, banks offered multiple customer service channels to reduce waiting time. This finding is in line with Mpaata et al. (2017) who found that there is a strong relationship between sustainable customer service and the perceived performance of the Bank. As a consequence, the bank also significantly improved on its relationship service marketing strategies in order to preserve its core competence of an international outlook already created. This indicates that customer services, as one of the relationship management practices, can be vital in the determination of banks loans portfolio.

Offering of personalized customer services is key in financial intermediation which is one of the functions of commercial banks. This finding is well supported by the Financial Intermediation theory that was developed by Jensen and Meckling in 1975). The theory describes four economic functions of deposit taking financial institutions: financial intermediation information specialist, delegated monitors, and payment and financial services provider (Leland & Pyle, 2002). This is achieved by explaining the role played by financial institutions in an economy. Gorton and Pennacchi (2001) explained that banks as financial intermediaries are in a position to obtain confidential information and access privileged information both on the demand and supply side of the market.

### **5.3 Conclusion**

The study concludes that the complaints management system avails reports on how complaints have been handled within any given period for better loans management, making corrections on areas of shortcomings in Banks' operations resulting in customer complaints thus helping to improve loan repayment for better loans management. Paying the necessary attention to clients' complaints in relation to loans improves overall loans repayment in the Bank for better loans management. It also concludes that the bank has a system for capturing customer complaints for better loans portfolio performance and that the customer complaints management system automatically escalates complaints once not resolved within agreed timeframe for better loans management. Banks also have a system in place for tracking of customer complaints for better loans management, resolving customer complaints in good time hence enhancing loans repayment in the Bank for better loans management. Their complaints management system influences the repayment of loans by customers for better loans management and by apologizing to customers' for complaints resolution delays, this did not promotes loans repayment in their Bank.

Banks send customers customized messages to encourage them repay their loans for better loans management. Informing customers on the importance of timely repayment of loan repayment installments helps improve the overall repayment of loans in their Bank for better loans management. The bank responded to customer requests on a timely basis thus improving the repayment of loans in their Bank for better loans management. Exchange of information within the bank influences the repayment of loans by customers for better loans management. It was found that Banks had an efficient communication system to foster better loans management and to aid information flows across their Bank smoothly. Advising the customer on financial management has helped Tier I banks bank improve repayment of loans by its customers and the manner that their bank managed its communication system affects the repayment of loans by their customers for better loans management

Most banks offer interest holidays to encourage customers to repay their loans. Banks review customers' consumption behaviors to develop rewards that suit their needs to encourage them repay their loans. Banks also offer discounts to loan customers to promote repayment. They have segmented their customers according to needs to improve their repayment of loans. Banks also offer rebates to loan customers for timely repayment of loans to encourage them repay on time. Banks award their customers with points every time they repay their loan installments on time. Loyal customers have fewer processes when applying for credit facilities. Lastly, Banks offer repayment grace periods to encourage its customers to repay their loans.

Based on all the findings above, it is therefore evident that the application of Relationship management practices by commercial banks has a positive effect on the loans portfolio performance of Commercial Banks hence fostering profitability and overall performance of the bank. Previous research therefore encourages Banks to adopt these relationship management practices.

#### **5.4 Limitations of the study**

The study was limited to some relationship management practices and their effect on loan portfolio performance of commercial banks. Specifically, the relationship management practices that the study focused on are: complaints management, communications management, personalized customer services and customer loyalty programs.

By limiting itself to loan portfolio performance, it means that the findings of the study may not be replicated to other aspects of the organization for instance competitiveness or organizational performance.

The study was further limited to commercial banks in Kenya. More specifically, the study focused on Tier 1 banks based in Nairobi. This is a limitation because it would be hard to replicate the findings to other financial institutions for instance the deposit taking institutions, Microfinance banks and Savings and Credit Cooperatives (SACCOs).

### **5.5 Recommendation of the Study**

From the outcome of the study, it is recommended that management of the commercial banks should consider management practices as a critical determinant of their portfolio performance. Commercial banks should ensure that there are clear methods and policies to direct their activities. It is also important that the commercial banks take a critical look at their performance analysis approaches so as to understand how its outcome influences their portfolio.

Performance monitoring being a continuous process should be implemented in a progressive manner that allows the commercial banks to understand their potential risk and hence guide in the use of other management activities.

It is also important for the commercial banks to adopt new approaches and tools for carrying out their performance evaluation. Reliance on the traditional and historical information and records as key sources for evaluation process may lower the chances of understanding the inherent risks in their portfolio.

The inverse effect of risk mitigation measures on the performance of the portfolio should be evaluated critically before they are adopted to ensure only beneficial approaches are adopted. The researcher further recommends that commercial banks should analyze the contribution of the individual management practices with a view of understanding their effect on the performance of their portfolio. This will enable them to stand in a better position to develop management practices models and strategies that are effective.

### **5.6 Suggestions for Further Studies**

The current study focused on commercial banks in Nairobi, Kenya, which is just one set of the many financial institutions in Kenya. Therefore, future studies should take a comparative approach by comparing other financial institutions in the country. The results showed that complaints management, communication management, customer loyalty program and personalized customer services all have an influence on loan portfolio performance. Hence, future studies should be carried out to establish other factors like the government policies with an influence on loan portfolio performance.

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## APPENDICES

### APPENDIX I: ETHICAL APPROVAL FROM SBS



3<sup>rd</sup> April 2019

JOYCE CHEROTICH RONO  
P.O Box 100-20200  
Kericho.  
joyceronoh10@gmail.com

Dear Joyce,

REF **Protocol ID:** SU-IERC0375/19 **Student Number:** 99677

**EFFECTS OF RELATIONSHIP MANAGEMENT PRACTICES ON LOAN PORTFOLIO PERFORMANCE OF COMMERCIAL BANKS IN KENYA**

We acknowledge receipt of your application documents to the Strathmore University Institutional Ethics Review Committee (SU-IERC) which includes:

1. Study Protocol submitted 23 March 2019
2. Cover letter listing all submitted documents 23 March 2019
3. Proposal declaration page signed by supervisors 23 March 2019

The committee has reviewed your application, and your study "EFFECTS OF RELATIONSHIP MANAGEMENT PRACTICES ON LOAN PORTFOLIO PERFORMANCE OF COMMERCIAL BANKS IN KENYA." has been granted approval.

This approval is valid for one year beginning **26 March 2019** until **26 March 2020**

In case the study extends beyond one year, you are required to seek an extension of the Ethics approval prior to its expiry. You are required to submit any proposed changes to this proposal to SU-IERC for review and approval prior to implementation of any change.

SU-IERC should be notified when your study is complete.

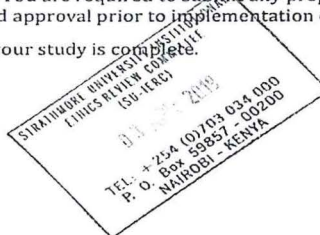
Thank you

Sincerely,

A handwritten signature in black ink, appearing to read "Florence Oloo".

Prof Florence Oloo  
Secretary

**Strathmore University Institutional Ethics Review Committee**



## APPENDIX II: LETTER OF INTRODUCTION

7th April, 2019

To whom it may Concern

RE: REQUEST TO PROVIDE DATA

I am a Master of **Master of Business Administration at Strathmore University** finalist at Strathmore University Business School. In partial fulfillment of the requirements of the degree, I wish to undertake a study titled **Effect of Relationship Management Practices On Loan Portfolio Performance of Commercial Banks In Kenya.**

Kindly be at liberty to seek any clarity or other information which may assist you.

Yours faithfully,

JOYCE RONO – MBA/99677/17

## APPENDIX III: STAFF QUESTIONNAIRE

### SECTION A: DEMOGRAPHIC PROFILE

**Instruction:** Kindly tick where appropriate.

1. Kindly indicate your gender?      Male       Female
  
2. What is your age bracket?    18-35       36-55     56 and above
  
3. What is your highest level of education?
 

Secondary level  College education  Undergraduate  Postgraduate

Other (Please specify) \_\_\_\_\_
  
4. How long have you worked in the bank? .
 

Below 5 years     5-10 years  above 10 years

### SECTION B: EFFECT OF RELATIONSHIP MANAGEMENT PRACTICES BY BANKS ON LOANS PORTFOLIO PERFORMANCE

5. Kindly rate the influence of complaints management practices on loans portfolio performance of commercial banks in Kenya. Key: 1=Not at all; 2= Strongly Disagree; 3= Disagree; 4= Agree; 5= Strongly Agree

| No   | Statements   | 1 | 2 | 3 | 4 | 5 |
|------|--|---|---|---|---|---|
| i.   | Our bank has a system for capturing customer complaints for better loans management  |   |   |   |   |   |
| ii.  | Our bank has a system in place for tracking of customer complaints for better loans management   |   |   |   |   |   |
| iii. | The customer complaints management system automatically escalates complaints once not solved within agreed timeframe for better loans management |   |   |   |   |   |
| iv.  | The Complaints management system avails reports on how complaints have been handled within any given period for better loans management          |   |   |   |   |   |
| v.   | Our complaints management system influences the repayment  |   |   |   |   |   |

|       |   |  |  |  |  |  |
|-------|---|--|--|--|--|--|
|       | of loans by customers for better loans management   |  |  |  |  |  |
| vi.   | Paying necessary attention to clients' complains in relation to loans improves overall loans repayment in our Bank for better loans management          |  |  |  |  |  |
| vii.  | Resolving customer complains in good time enhances loans repayment in our Bank for better loans management  |  |  |  |  |  |
| viii. | Apologizing to customers' for complaints made promotes loans repayment in our Bank  |  |  |  |  |  |
| ix.   | Making corrections on areas of shortcomings in our operations resulting in customer complaints helps improve loan repayment for better loans management |  |  |  |  |  |

a. How does your bank ensure it effectively resolve its customers' complaints? ...

.....  
 .....

6. Kindly rate the influence of communications management by banks on loans performance. Key: 1=Not at all; 2=Strongly Disagree; 3=Disagree; 4=Agree and; 5=Strongly Agree

| No.  | Statements   | 1 | 2 | 3 | 4 | 5 |
|------|--|---|---|---|---|---|
| i.   | Our bank has an efficient communication system for better loans management   |   |   |   |   |   |
| ii.  | Information flows across our Bank smoothly for better loans management   |   |   |   |   |   |
| iii. | Exchange of information within our bank influences the repayment of loans by our customers for better loans management     |   |   |   |   |   |
| iv.  | Our Bank sends customers customized messages to encourage them repay their loans for better loans management               |   |   |   |   |   |
| v.   | The manner that our bank managed its communication system affects the repayment of loans by our customers for better loans |   |   |   |   |   |

|       |   |  |  |  |  |  |
|-------|---|--|--|--|--|--|
|       | management  |  |  |  |  |  |
| vi.   | Informing customers on the importance of timely repayment of loan repayment installments helps improve the overall repayment of loans in our Bank for better loans management |  |  |  |  |  |
| vii.  | Informing customers on the importance of full repayment of loan received helps improve the overall repayment of loans in our Bank   |  |  |  |  |  |
| viii. | Advising customer on financial management has helped our bank improve repayment of loans by its customers for better loans management   |  |  |  |  |  |
| ix.   | Responding to customer requests on a timely basis improves the repayment of loans in our Bank for better loans management   |  |  |  |  |  |

a. How does your bank ensure it effectively communicate with its customers? .....

.....  
 .....

7. Kindly rate the influence of customer loyalty programs on loans portfolio performance.

Key: 1=Not at all; 2= Strongly Disagree; 3= Disagree; 4= Agree; 5= Strongly Agree

| No.  | Statements  | 1 | 2 | 3 | 4 | 5 |
|------|---|---|---|---|---|---|
| i.   | Our bank offers discounts to loan customers to promote repayment  |   |   |   |   |   |
| ii.  | Our bank offers rebates to loan customers for timely repayment of loans to encourage them repay on time           |   |   |   |   |   |
| iii. | Our Bank has segmented its customers according to needs to improve their repayment of loans                       |   |   |   |   |   |
| iv.  | Our bank offers interest holidays to encourage customers to repay their loans                                     |   |   |   |   |   |
| v.   | Our bank offers repayment grace period to encourage its customers to repay their loans                            |   |   |   |   |   |
| vi.  | Our bank review customers' consumption behaviour to develop rewards that suit their needs to encourage them repay |   |   |   |   |   |

|       |  |  |  |  |  |  |
|-------|--|--|--|--|--|--|
|       | their loans  |  |  |  |  |  |
| vii.  | Our Bank awards customers points every time they repay their loan installments on time |  |  |  |  |  |
| viii. | Loyal customers have fewer processes when applying for credit facilities               |  |  |  |  |  |

a. What loyalty programs does your Bank avail for its customers'?

.....  
 .....

8. Kindly indicate your level of agreement with the following statements on the influence of personalized customer services on loans portfolio performance of commercial banks in Kenya. Key: 1=Not at all; 2= Strongly Disagree; 3= Disagree; 4= Agree; 5=Strongly Agree

| No.   | Statements  | 1 | 2 | 3 | 4 | 5 |
|-------|---|---|---|---|---|---|
| i.    | Our bank has developed customized financial services for its diverse customers for better uptake                            |   |   |   |   |   |
| ii.   | Availing customized financial services has helped the Bank motivate its customer to repay loans                             |   |   |   |   |   |
| iii.  | Our Bank has customized occasional messages for its customers (i.e. Birthdays, public holidays) to promote customer service |   |   |   |   |   |
| iv.   | Our bank offers preferential services to customers who repay their loans in full for improved overall loan performance      |   |   |   |   |   |
| v.    | Our bank offers preferential treatment to customers who repay their loans on time for improved overall loan performance     |   |   |   |   |   |
| vi.   | Personalized services have promoted loan repayment in our bank  |   |   |   |   |   |
| vii.  | Our bank provides customized products that influence repayment of loans   |   |   |   |   |   |
| viii. | Preferential treatment of loan applicants by our Bank promote better loans performance                                      |   |   |   |   |   |

|     |   |  |  |  |  |  |
|-----|---|--|--|--|--|--|
| ix. | Personalized customer services promote customer satisfaction for enhanced loans portfolio performance |  |  |  |  |  |
|-----|---|--|--|--|--|--|

a. What are some of the personalized customer services offered by your Bank to customers?

.....  
 .....

**SECTION B: LOANS PORTFOLIO PERFORMANCE IN BANKS**

9. Kindly indicate your level of agreement with the following statements on loans portfolio performance of commercial banks in Kenya. Use the scale 1=Not at all; 2= Strongly Disagree; 3= Disagree; 4= Agree; 5= Strongly Agree

**Statements on the State of Loans Portfolio Performance**

| No.  | Statements   | 1 | 2 | 3 | 4 | 5 |
|------|--|---|---|---|---|---|
| x    | The probability of our customers repaying their loans has been on the increase over the past five years              |   |   |   |   |   |
| xi   | The interest income for our Bank has been on the increase over the last five years                                   |   |   |   |   |   |
| xii  | Our bank accurately identifies risks associated with lending to our customers  |   |   |   |   |   |
| xiii | The risks associated with lending activities in our Bank are communicated to management regularly                    |   |   |   |   |   |
| xiv  | The level of nonperforming loans in our Bank has been declining over the last five years                             |   |   |   |   |   |
| xv   | The collateral pledged by loan applicants in most cases is sufficient  |   |   |   |   |   |
| xvi  | Majority of our loan beneficiaries make their installment repayments on a timely basis                               |   |   |   |   |   |
| xvii | The amount recovered on disposal of collateral on loan default is normally sufficient to cover the outstanding loans |   |   |   |   |   |

|       |   |  |  |  |  |  |
|-------|---|--|--|--|--|--|
| xviii | The amount of loans repaid as a percentage of loans issued has been increasing over the last five years |  |  |  |  |  |
| xix   | The number of persons applied for loans in our bank has increased over the last five years              |  |  |  |  |  |
| xx    | The provision for bad debts in our bank has increased over the last five years                          |  |  |  |  |  |

## APPENDIX IV: LIST OF COMMERCIAL BANKS IN KENYA

### TIER 1

- 1) KCB 1896
- 2) Equity Bank 1984
- 3) Barclays Bank 1916
- 4) Standard Chartered Bank 1911
- 5) Cooperative Bank 1872
- 6) Commercial Bank of Africa 1962
- 7) Diamond Trust Bank 1945

### TIER 2

- 1) Bank of Africa Kenya 2004
- 2) Eco Bank 2005
- 3) Prime Bank Kenya Limited
- 4) Family Bank 1984
- 5) CFC Stanbic Bank 2007
- 6) NIC Bank 1959
- 7) I&M Bank 1974
- 8) Housing Finance Bank 2010
- 9) National Bank 1968
- 10) Bank of Baroda 1953
- 11) Bank of India 1953

### TIER 3

- 1) African Banking Corporation (ABC) 1984
- 2) Jamii Bora Bank 1999
- 3) Paramount Universal Bank 1993
- 4) Dubai Islamic Bank
- 5) Imperial bank of Kenya Limited
- 6) Citibank N.A Kenya 1974
- 7) Consolidated Bank 1989

- 8) Credit Bank 1986
- 9) Development Bank 1963
- 10) Fidelity Bank 1988
- 11) Guardian Bank 1992
- 12) Transnational Bank 1984
- 13) Oriental Commercial Bank 2002
- 14) Gulf Africa Bank 2006
- 15) First Community Bank 2007
- 16) Equatorial Bank 1983
- 17) Mayfair bank Kenya Limited
- 18) Giro Commercial Bank 1993
- 19) Habib Bank AG Zurich 1978
- 20) Sidian Bank 1985
- 21) United Bank of Africa (UBA) 2009
- 22) Habib Bank Ltd. 1946
- 23) Middle East Bank 1981
- 24) Victoria Commercial Bank 1987
- 25) Charterhouse Bank (under statutory management 1996).
- 26) SBM Bank Kenya Limited
- 27) Guarantee Trust Bank

**APPENDIX V: SECONDARY DATA COLLECTION SHEET**

| <b>Period</b>   | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| Number of credit applicants                               |             |             |             |             |             |
| Overall loans volume (Ksh.)                               |             |             |             |             |             |
| Average time taken to resolve customer complaints         |             |             |             |             |             |
| Average complaints resolved                               |             |             |             |             |             |
| Number of customer commendations                          |             |             |             |             |             |
| Time taken for information to reach destinations          |             |             |             |             |             |
| Time to get feedback on issues                            |             |             |             |             |             |
| Number of customers who took up discounts offered         |             |             |             |             |             |
| Number of loans recovered on offering discounts           |             |             |             |             |             |
| Number of customized products                             |             |             |             |             |             |
| Number of customers who have taken up customized products |             |             |             |             |             |
| Number of new customer signing up for new products        |             |             |             |             |             |