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**Effects of Customer Relationship Management Systems on Financial
Performance of Commercial Banks in Kenya**

CHRISTINE MUNGLA

MBA/87009/2015

Submitted in partial fulfilment of the requirements for the award of a Master's in
Business Administration (MBA) Degree



MAY, 2018

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Christine Mungla

May, 2018

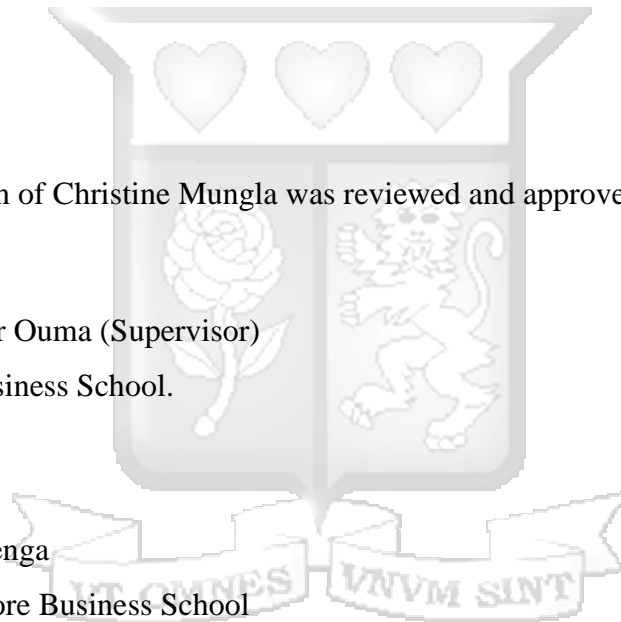
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ABSTRACT

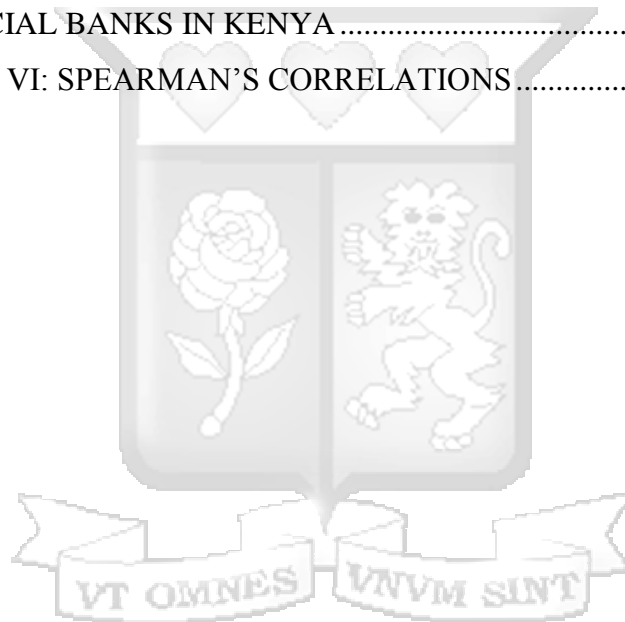
Commercial Banks in Kenya have continually invested in technology and in particular, Customer Relationship Management (CRM) systems and trained employees on how to handle these systems. The foundation for the development of CRM systems is generally considered to be relationship marketing. These systems provide the foundation and tools commercial banks need to implement processes that maximize opportunities and design client experience that differentiates them from competitors. The purpose of the study was to examine effects of adopting customer relationship management systems on financial performance of commercial banks in Kenya. The target population for this study were commercial banks that have been in operation between the years 2013 to 2017. A cross sectional study design was used. Primary data was collected using structured questionnaires. The findings showed that with the adoption of CRM systems commercial banks in Kenya have improved their overall engagement with their customers. This has led to innovation of a variety of products for bank customers. The main challenges observed in the adoption of CRM systems were rapid rate of technological change on CRM systems and high operational costs such as need for continuous staff training resulting in the need to hire skilled staff. The results of this study will inform bank management on the cost – benefit analysis on decision to invest in CRM systems.



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LIST OF ABBREVIATIONS

CBK: Central Bank of Kenya

CMA: Capital Markets Authority

CRM: Customer Relationship Management

IT: Information Technology

NPLs: Non-performing loans

SFA: Salesforce Automation

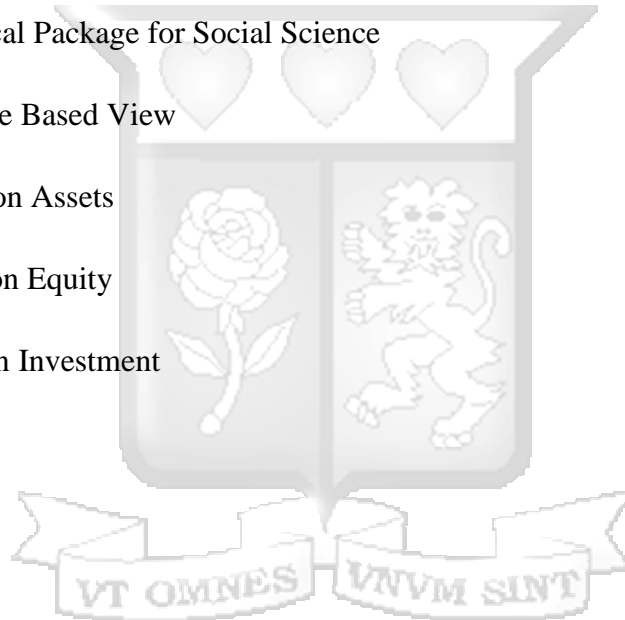
SPSS: Statistical Package for Social Science

RBV: Resource Based View

ROA: Return on Assets

ROE: Return on Equity

ROI: Return on Investment



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Thank you all.



CHAPTER ONE: INTRODUCTION

1.1 Background of study

Customer Relationship Management (CRM) has been defined in many ways and with many descriptions. Chen and Popvich (2003) define CRM as the art of acquiring customers and having a long-lasting relationship with them. Companies must take the initiative to actualize and implement CRM. Also, CRM is a combination of people, processes, and technology in order to understand and obtain customers for the company. To benefit fully from the implementation of CRM, companies must have efficient CRM programs to secure the loyalty of the customers. Frow et al (2011) argue that proper relationships with customers need to be conducted by sophisticated management.

Chen and Sockel, (2004) agrees with Frow et al (2011) and further argues that in order to compete with business rivals and keep pace with the competition in today's market, businesses need to have more than just a professionally designed website; they need to engage and involve users with an encyclopaedic system and strategies to support their companies. CRM applications provide an effective connection from the front office to back office and touch points with the customers. An organization's touch points include the Internet, E-mail, call centres, face-to-face marketing, fax, pagers, and kiosks. CRM can be employed to consolidate these touch points for the benefit of the organization. Using CRM, companies can maximize their interactions with customers and obtain a 360-degree vision of customers.

Interest in the study of CRM is gaining momentum among academicians and businesspeople (for example, Gruen, Summers, and Acito 2000; Rigby and Ledingham 2004; Srivastava, Shervani, and Fahey 1999; Thomas, Blattberg, and Fox 2004), and progressive companies, such as IBM and Boise Cascade, which are placing greater priority on their CRM investments. Yim, Anderson, and Swaminathan (2004) further argue that CRM solutions are deemed to be so critical that investments in them continue to be funded despite shrivelling information technology (IT) budgets.

CRM programs are helping sales managers identify and target their most valuable customers, as pressures mount to make more effective and efficient allocation of

resources to achieve company goals. A study by Ngumi (2013) on the effect of bank innovations on financial performance on commercial banks in Kenya argues that financial innovations arise due to several reasons and some of the important reasons for this include innovation in business philosophy, management, procedure, product, promotion and scientific and technology. Gorton and Metrick, (2010) and Batiz-Lazo and Woldeesenbet (2006) summarize the reasons for the growth of modern financial innovation as; reduction in bankruptcy costs, tax advantages, reduction in moral hazard, reduced regulatory costs, transparency, and customization. A highly turbulent environment leads to successful innovation creating a unique competitive position and competitive advantage and leads to a superior performance (Roberts & Amit, 2003). This can only be maintained by ceaseless innovation and improvement of the product and the process Porter (2004).

Previous studies such as those by Ngumi (2013), Muro (2011), Kyambati (2011), Gitau (2011), Oloko and Mosoti, (2014) and Mugane (2015) have focused on effect of technology such as mobile and agency banking on financial performance of commercial banks. However, this study focused on effect of adoption of CRM, which includes people, processes and technology on financial performance of commercial banks in Kenya.

1.1.1 Banking Sector in Kenya

The Banking Industry in Kenya is regulated and governed by the Companies Act, the Banking Act, and the Central Bank of Kenya Act. All banks are regulated by the Central Bank of Kenya with the Capital Markets Authority (CMA) having additional oversight over the listed banks.

According to the CBK's Bank Supervision Annual Report 2015, as at 31st December 2015, the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, 43 banking institutions (42 commercial banks and 1 mortgage finance company). Out of the 43 banking institutions, 40 were privately owned while the Kenya Government had majority ownership in 3 institutions. Of the 40 privately owned banks, 26 were locally owned. That is the controlling shareholders are domiciled in Kenya, while 14 were foreign-owned.

The 26 locally owned institutions comprised 25 commercial banks and 1 mortgage financier. Of the 14 foreign-owned institutions, 10 were local subsidiaries of foreign

banks while 4 were branches of foreign banks. All licensed microfinance banks, credit reference bureaus, forex bureaus and money remittance providers were privately owned.

1.1.2 Commercial Banks Market Share

Kenyan commercial banks are classified into three peer groups using a weighted composite index that comprises net assets, customer deposits, capital and reserves, number of deposit accounts and number of loan accounts. A bank with a weighted composite index of 5 per cent and above is classified as a large bank. A medium bank has a weighted composite index of between 1 per cent and 5 per cent while a small bank has a weighted composite index of less than 1 per cent.

For the period ended 31st December 2015, there were 7 large banks with a market share of 58.21 per cent, 12 medium banks with a market share of 32.42 per cent and 21 small banks with a market share of 9.24 per cent as shown in Table 1.1 below:

Table 1.1: Commercial Banks Market Share Analysis

Peer Group	Weighted Market Share	No. of Institutions	Total Net Assets, (Ksh.M)	Customer Deposits, (Ksh. M)	Capital & Reserves (Ksh.M)
Large	58.21%	7	2,013,336	1,460,181	310,971
Medium	32.42%	12	1,163,676	804,654	175,467
Small	9.24%	21	315,631	221,084	54,140
Total	100.00%	40	3,492,643	2,485,919	540,578
<i>Source: CBK (2015)</i>					

The CBK's Bank Supervision Annual Report 2015 further goes on to advise that in 2015, the banking sector capital & reserves increased by 7.74 per cent from Kenya Shilling 501.7 billion in December 2014 to Kenya Shilling 540.6 billion in December 2015.

The large and small peer groups registered increases in capital & reserves while the medium peer group registered a decrease. The movements in peer groups' capital and

reserves are mainly attributed to the movements of some banks across the peer groups in 2015.

The increase in capital and reserves is attributable to additional capital injections by commercial banks to meet the core capital and total capital regulatory requirements as well as retained earnings from the profits realized in the year.

Further, according to the Central Bank of Kenya, (2015), the banking sector registered improved financial strength in 2015, with total net assets recording an increase of 9.2% per cent from Kenya Shilling 3,199.4 billion in December 2014 to Kenya Shilling 3,492.6 billion in December 2015. This was attributed to increased gross loans by 15.11 per cent from Kenya Shilling 1,881.0 billion in December 2014 to Kenya Shilling 2,165.3 billion in December 2015. The banking sector according to the Central Bank of Kenya, (2015) also registered improved financial strength in 2015, with total net assets recording an increase of 9.2% per cent. This was attributable to growth in investments and loans and advances, which increased by 23.2 per cent and 15.12 per cent respectively. Despite the improved financial strength, the banking sector registered declined profitability in 2015. The sector recorded a 5.03 per cent decline in pre-tax profits during the year. The decline in profitability in 2015 could be explained by a faster growth in expenses compared to the growth in income. The banks income increased by 9.1 per cent in 2015 compared to a higher increase of expenses of 16.3 per cent.

1.1.3 The Tier System of Classification for Commercial Banks in Kenya

The Central Bank of Kenya (CBK) has grouped the banks in Kenya into three tiers. The CBK came up with this classification system as a means of distinguishing different banks according to their market share, asset base and number of customer deposits. Tier 1 comprises of large banks with hundreds of billions in cumulative assets and millions of depositors. Six banks in this tier control 49.9% of the market. Tier 2 banks are medium-sized lenders and they control 41.7% of the market share. The final level is Tier 3 and they control 8.4% of the market as illustrated in Appendix IV.

1.1.4 Financial Performance in Commercial Banks

According to Tung'a (2013) financial performance can be defined as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation.

Some of the indicators of financial performance are return on equity, liquidity ratios, asset management ratios, profitability ratios, leverage ratios and market value ratios.

Carreta and Farina (2010), argue that use of financial performance could still be justified on the grounds that it reflects what managers actually consider to be financial performance and, even if this is a mixture of various indicators like accounting profits, productivity, and cash flow. Financial performance is determined by the following indicators; profit or value added; sales, fees, budget; costs or expenditure and stock market indicators (e.g. share price) and autonomy. Proxies for the financial performance of the banks also include the accounting measure of performance; return on equity (ROE) and return on asset (ROA) as identified by First Rand Banking Group (2006).

1.1.5 Customer Relationship Management Systems in Commercial Banks

The foundation for the development of CRM is generally considered to be relationship marketing, defined as marketing activities that attract, maintain, and enhance customer relationships. As a logical result of the appearance of the concept "Relationship Marketing" since the 1920s, the concept "Customer Relationship Management" (CRM) has been brought to attention in late nineties, especially among the academics and practitioners. The new concept has directed the attention towards various vital aspects, including the necessity of direct relationship between customers and marketers, the importance of keeping current customers, as well as the inevitability of building long-term relationships with customers instead of the customer-oriented transaction method in order to augment the profitability of the institutions, especially in today's increasingly competitive economy Oloko and Mosoti (2014).

Pivotal CRM for Commercial Banking is a complete, end-to-end client relationship management (CRM) tool that offers exceptional functionality tailored to the needs of commercial banks. It is designed to help commercial banks retain the advantages and insight of traditional relationship banking while capitalizing on the efficiencies of automation and centralized client information and opportunity management, Beasty (2005). CRM system enables a bank to develop a deep insight into its clients' needs and preferences. It also helps them automate multi-step processes, track performance, and collaborate better as a team.

The flexibility of CRM platform supports many connections to the entire bank, including back-office financial systems.

In order to compete effectively in the marketplace, Commercial Banks have become customer-focused, and not product-focused. Linking classic resource, customer-centred strategy, and IT application, CRM in commercial banks seeks to optimize an enterprise's revenue and profits, and provide maximum customer satisfaction, (Oloko & Mosoti, 2014).

1.2 Problem Statement

Information technology (IT) has increasingly been used in financial institutions including the banking sector to improve service delivery to its clients. Customers now have alternative access to a variety of products and services earlier offered exclusively by commercial banks, such as deposits and withdrawals, thus becoming difficult for banks to survive. In situations where customer inquiries are not met easily or transactions are complicated, the customer will ask for new levels of services and only choose those institutions which are making real efforts to provide a high level of quality, fast and efficient services through all its touch points.

In today's competitive business environment and competitive market position a good reputation of a bank can quickly translate into market share and profit. CRM utilizes customer related information or knowledge to deliver relevant products or services to customers. Commercial banks in Kenya are increasingly competing for market share hence it is important that they continuously improve their products and services to match customers' needs and requirements while remaining competitive and profitable. It is also of great importance that banks enhance their reputation by establishing good customer relationship.

Presently, banks have continuously invested on CRM systems to improve their customer experience. However, there is little information on the effects of adopting customer relationship management systems on financial performance of commercial banks in Kenya. This study sought to understand or create awareness around, which CRM systems are commercial banks adopting and what are they using these systems for; how much are commercial banks in Kenya spending to adopt these systems and is there a relationship between adoption of CRM systems and financial performance of commercial banks in Kenya? This study sought to determine these effects to bridge this knowledge gap.

1.3 Research Objectives

1.3.1 General Objective

The main objective of this study was to determine the effect of adopting customer relationship management systems on performance of commercial banks in Kenya.

1.3.2 Specific Objectives

The specific study objectives were to:

- i) Explore the extent of adoption of customer relationship management systems among commercial banks.
- ii) Establish the challenges that commercial banks have had as a result of adopting customer relationship management systems.
- iii) Determine the influence customer relationship management systems have had on financial performance among commercial banks.

1.4 Research Questions

- i) What is the effect of adoption of customer relationship management systems by commercial banks in Kenya?
- ii) What are the challenges that commercial banks in Kenya have had as a result of adopting customer relationship management systems?
- iii) What is the impact of adopting customer relationship management systems on financial performance in commercial banks in Kenya?

1.5 Scope of Study

The study was limited to the effect of the adoption of customer relationship management systems on financial performance of commercial banks in Kenya.

1.6 Significance of the Study

The research findings will help senior bank management in efficient decision making before investing in CRM systems, as well as evaluate the benefits and challenges of adoption of these CRM systems. Secondly, the research findings will also provide the industry regulator (Central Bank of Kenya) with reliable data that can be used in policy making.

Finally, the research findings will also provide insights to commercial banks in Kenya allowing for benchmarking amongst the peers/tiers.



CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews relevant literature on the study area. In particular, both theoretical and empirical reviews are presented.

2.2 Theoretical Review of Literature

The theoretical framework is based on literature and theories capturing the adoption of CRM systems. This study was founded on two theories, namely; the open systems theory and the resource based view theory. The two theoretical perspectives are relevant to this research as they assume that organizations need to have resources which it will utilize in realizing its objectives. Organizations also operate as open systems where they need to get input from the environment and utilize them to produce output which they release into the environment (Njoki, 2015).

2.2.1 Open Systems Theory

This theory provides managers with metaphors, terminology and explanations about how organizations function. This theory holds that organizations are strongly influenced by their environment made up of other organizations exerting various forces of economic, political, or social nature. The environment provides key resources that sustain the organization and lead to change and survival Njoki (2015). Open systems theory was developed in reaction to earlier theories of organizations, such as the human relations perspective of Elton Mayo and the administrative theories of Henri Fayol, which treated the organization largely as a self-contained entity Scott (2002). This means that the organization has to take into consideration the other stakeholders when developing its CRM programs to ensure optimal operations. Environmental influences that affect open systems can be described as either specific or general. The specific environment refers to the network of suppliers, distributors, government agencies, and competitors with which a business enterprise interacts. The general environment encompasses four influences that emanate from the geographical area in which the organization operates (Pfeffer & Salancik, 2003).

According to Njoki (2015), the open-systems theory assumes that all large organizations are comprised of multiple subsystems, each of which receives inputs

from other subsystems and turns them into outputs for use by other subsystems. Commercial banks like any other organization rely on the environment for input resources in form of human capital and at the same time, its customers and competitors are in this environment Scott (2002). As such, it has to understand how to manage all these resources and stakeholders for effective turnaround strategy.

In the context of this research, the open systems theory will be particularly useful in examining the different subsystems that make up the entire banking environment. Commercial banks typically have different segments for example, treasury, customer service, finance, operations and sales departments. Each segment or department has to interact with each other thus it is possible to examine which CRM systems each department adopts, how much it costs and its effects to the financial performance of the organisation.

2.2.2 Resource Based-View Theory

Barney J. (1991) asserts that building on assumptions that strategic resources are heterogeneously distributed across firms and that these differences are stable over time, such that there exists a link between firm resources and sustained competitive advantage. Four empirical indicators of the potential of firm resources to generate sustained competitive advantage are – value, rareness, inimitability and suitability. The Resource Based View (RBV) suggests that sustainable superior performance and competitive advantage of any firm is the result of the accumulation and utilization of resources, managerial choices, factor market imperfections and strategic industry factors Grant (1991). Firm heterogeneity instead of external environmental factors are considered relatively more important determinants of the performance and competitive position of a firm both in the local and international market place Barney (1996). This theory views firms as a combination of skills, resource and capabilities. The acquisition, integration and utilization of resources and capabilities are expected to influence the performance of firms. These resources are expected to be rare, inimitable, valuable and unbundable (Grant, 2002; Yaprak & Karademir, 2010). Within the CRM and service quality environment, it can be argued that it is through the resources owned and controlled by the firm which are employed in CRM to create and sustain competitive advantage over their competitors.

In the context of this research, the RBV theory has its premise on resources i.e. money, people and processes, the theory will be particularly useful in examining how

adoption of CRM systems increases commercial bank's competitive edge and eventually how it effects financial performance of commercial banks

2.3 Empirical Review of Literature

2.3.1 Concepts of Customer Relationship Management

According to Faed (2013), CRM has been defined in many ways. It can be defined as the art of acquiring customers and having a long-lasting relationship with them. Also, CRM is a combination of people, processes, and technology in order to understand and obtain customers for the company. It focuses on customer retention and builds up the relationship. To benefit fully from the implementation of CRM, companies must have efficient CRM programs to secure the loyalty of the customers

Faed (2013) further argues that, proper relationships with customers need to be conducted by sophisticated management. In order to compete with business rivals and keep pace with the competition in today's market, businesses need to have more than just a professionally designed website; they need to engage and involve users with an encyclopaedic system and strategies to support their companies.

2.3.2 Customer Relationship Management Systems in the Banking Sector

In the financial industry, banks have embraced customer relationship management and according to Muro (2011), CRM in the banking system is fundamental to building a customer-centric organization. The CRM systems link customer data into a single and logical customer repository. CRM in banking is a key element that allows a bank to develop its customer base and sales capacity. The goal of CRM is to manage all aspects of customer interactions in a manner that enables banks to maximize profitability from every customer. Muro (2011) further argues that customers are constantly faced with an increasing array of banking products and services, they are also expecting more from banks in terms of customized offerings, attractive returns, ease of access, and transparency in dealings. Retaining customers thus is a major concern for banking institutions which underscores the importance of CRM.

At the individual employee level, CRM system equips users with the information they need to deliver exceptional, personalized service while cross-selling and up-selling

effectively, bank relationship officers can track client companies' business plans within the system, including their strategic direction and priorities, enabling them to proactively provide personalized services that fit the client's business needs, Muro (2011). At the executive level, CRM system enables management to track and manage the revenue channel, identify business at risk, and gain insight into trends and opportunities. It also enables firms to capture client referrals reliably and follow up on them consistently, including referrals from one line of business, such as depository services, to another such as credit card servicing.

The banking industry is facing an ever-increasing level of competition around the world as the dynamics of the business change. Technology, commoditization, deregulation and globalization forever changed the face of banking. Banks have understood the need to capitalize on the new technologies to gain advantage in the competition by exploiting their customer base, brand value and costly infrastructure investments in order to increase profits, as there's a direct link between the customer satisfaction and the profitability. CRM is the strategy which enables the banks to analyse the customer profiles, to detect their needs and potential profitability areas and establish the necessary actions to achieve customer satisfaction, competitive advantage and thus the profitability (Babin, 2010). From the customer's points of view, the competition brings them various choices and increases their bargaining power. Today, customers are looking for various benefits from a bank; better service, lower transaction fees, higher interest rates, a sign of prestige, new products access from different channel and etc. this scheme forces the banks to look for new ways to satisfy customers before any other bank or financial institution does.

2.3.3 CRM Systems and Financial Performance in Commercial Banks

According to Krasnikov, Satish, and Kumar, (2009) and Yim, Anderson, and Swaminathan, (2004) over the past decade, many firms have implemented customer relationship management (CRM) and a growing number of companies are developing elaborate CRM systems and making creative use of sales force automation (SFA), data warehousing, data mining, push technology, and other query tools to better understand and serve customers. These systems are beneficial to banks especially because the organization is able to keep history about their clients, cross-sell various

bank products and they also greatly assist sales managers in planning for their performance (setting of Key Performance Indicators).

Mithas, Almirall, and Krishnan,(2006) further argue that firms invest over \$50 billion each year on Information technology (IT) applications (such as CRM systems) to streamline customer interfacing business processes. A primary objective of these systems is to improve one-to-one marketing effectiveness, that is, the ability of a firm to target an individual customer based on previous history and purchasing behaviour.

Notwithstanding, not all CRM system implementation result in success or positive performance for an organization, Krasnikov, Satish, and Kumar, (2009) note that more recently, however, highly publicized failures of CRM implementation have led to scepticism among managers about its much-vaunted potential to generate firm value Ryals (2005); Zablah, Bellenger, and Johnston (2004). From the perspective of managers in firms that have implemented CRM, or plan to do so, these reports are disconcerting. As far as managers of firms that provide CRM technology and related services are concerned, reports that CRM efforts are not effective are particularly alarming.

Financial performance according to Mugane (2015) may be defined as the reflection of the way in which the resources of a company are used in the form which enables it to achieve its objectives. Heremans (2007) on the other hand describes financial performance as the employment of financial indicators used to measure the extent of objective achievement, contribution to making available financial resources and support of the bank with investment opportunities.

Alam, Raza, and Akram (2011) state that a firm's performance is a multidimensional construct that consists of four elements namely customer-focused performance, including customer satisfaction, and product or service performance; financial and market performance, including revenue, profits, market position, cash-to-cash cycle time, and earnings per share; human resource performance, including employee satisfaction; and organizational effectiveness, including time to market, level of innovation, and production and supply chain flexibility. Most firms, however, prefer to adopt financial indicators to measure their performance. Return on assets (ROA),

average annual occupancy rate, net profit after tax ,Return on Equity (ROE) and Return on Investment (ROI) are the commonly used financial or accounting indicators by firms (Tavitiyaman, Zhang, & Qu, 2012).Some other common measures are profitability, productivity, growth, stakeholder satisfaction, market share and competitive position (Bagorogoza & Waal, 2010). The financial performance of commercial banks in Kenya will be measured on capital adequacy, liquidity, asset quality and earnings/profitability i.e. percentage change in ROA.

According to Coltman, Devinney and Midgley (2011), the resource-based view of the firm, strategic CRM is conceptualized as an endogenously determined function of the organization's ability to harness and orchestrate lower-order capabilities that comprise physical assets, such as IT infrastructure, and organizational capabilities, such as human analytics (HA) and business architecture (BA). The results reveal a positive and significant path between a superior CRM capability and firm performance. In turn, superior CRM capability is positively associated with HA and BA. However, the results suggest that the impact of IT infrastructure on superior CRM capability is indirect and fully mediated by HA and BA. The study also found that CRM initiatives jointly emphasizing customer intimacy and cost reduction outperform those taking a less balanced approach.

In addition, Akroush, Dahiyat, Gharaibeh, and Abu-Lail (2011) assert that the CRM implementation scale originally developed by Sin et al. does generalize to a Jordanian financial service organisations (FSOs) context. The findings indicate that there is a positive and significant relationship between CRM implementation components and FSOs' business performance comprised of financial and marketing performances. CRM organization and technology-based CRM are the strongest predictors of variations in FSO's business performance.

2.4 Summary of Literature Review

The literature review discusses the theories and key concepts regarding CRM systems in commercial banks and compares arguments and findings from various studies. Based on the reviewed studies, there appears to be a consensus that the adoption of CRM systems has an effect on the financial performance of commercial banks in Kenya. Coltman, Devinney, and Midgley (2011) and Akroush, Dahiyat, Gharaibeh

and Abu-Lail (2011) assert this in their studies presenting that there is a positive and significant relationship between CRM implementation or adoption and a business' financial and marketing performances.

2.5 Research gap

From the reviewed studies, CRM has become important for most organizations, and in Kenya, most commercial banks are increasingly investing in customer relationship management systems in a bid to increase efficiency and profitability within their organizations. Therefore, this study aims to examine the effects of the adoption of customer relationship management systems on the financial performance of commercial banks in Kenya.

The research gap arising from these previous studies forms the basis of the present study which seeks to specifically examine a particular innovation which is customer relationship management systems and their effect on financial performance of commercial banks in Kenya. In addition, effect of adopting CRM systems and their effect on financial performance of commercial banks in Kenya is an area that firms need to understand, strategize and execute properly in order to achieve the desired goal of improved financial performance. There is need to carry out a further study on the challenges facing the adoption of services quality management in the banking industry which would help to explain why banks have varied performance levels and difference in the customer perception toward their services

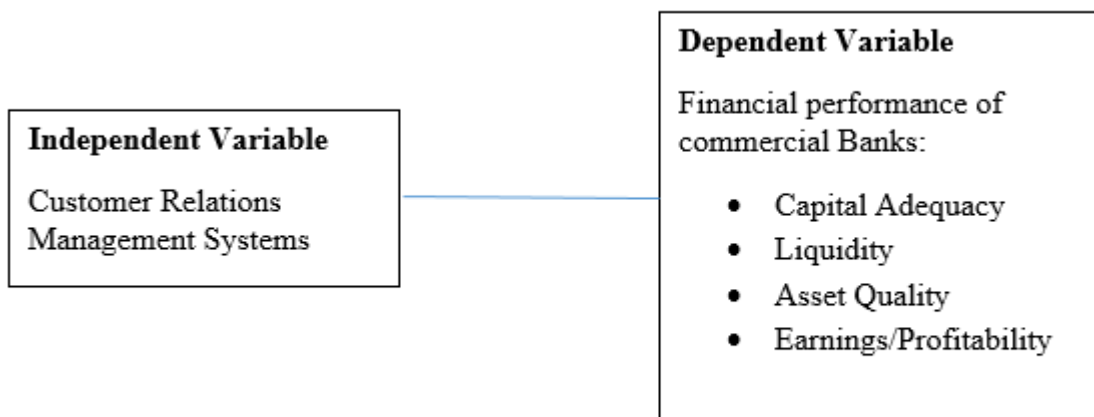
2.6 Conceptual Framework

The conceptual framework explains the relationship between the variables under study. Kombo and Tromp (2009) describe a conceptual framework as a set of broad ideas and principles taken from relevant fields of inquiry and used to structure a subsequent presentation. A conceptual framework is a research tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate it. When clearly articulated, a conceptual framework has potential usefulness as a tool to assist a researcher in making meaning of subsequent findings. It forms part of the agenda for negotiation to be scrutinized, tested, reviewed and reformed as a result of the investigation and it explains the possible connections between the variables.

The conceptual framework for the present study shows the relationship between the adoption customer relationship management systems and financial performance of commercial banks in Kenya. In the framework below, CRM Systems represents the dependent variable while the financial performance of commercial banks represents the independent variable.

The study further explains the dimensions of the intervening variable being Government regulations of commercial banks in Kenya. The schematic representation is shown in Figure 2.0 below:

Figure 2.0: Conceptual Framework



2.7 Definition of Measurements and Variables Framework

Table 2.1 Summary of variables and measurements

	Variable	Description/Measurement
1.	Implementation of CRM systems	Extent of adopting CRM systems using a Likert Scale
2.	Capital Adequacy	Percentage change in core capital
3.	Liquidity	change on customer deposits
4.	Asset Quality	Net increase in gross loans and NPLs
5.	Earnings/Profitability	Percentage change on ROA

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology that was adopted to achieve the objectives of the research study. The chapter also presents the research design, the population sampling design, data collection and data analysis methods that were used in the research.

3.2 Research Design

According to Kothari and Garg (2014), research design refers to the advance plans to guide the data collection and data analysis processes. This is critical to ensure that resources are allocated appropriately in the exercise which will be key to achieving the desired research objectives. This study adopted descriptive and correlational research designs. In particular, in objectives 1 and 2 the study adopted descriptive research design to explore the extent of adoption of CRM among commercial banks in Kenya, then factor analysis was used to determine challenges faced by commercial banks as a result of such adoption. Lastly, a correlational design method was applied to obtain impact of adopting customer relationship management systems on financial performance in commercial banks in Kenya.

3.3 Population and Sampling Design

According to Zikmund et al. (2013), a population refers to all items in any field of inquiry and is also known as the 'universe'. The target population for this study was the entire 43 banks in Kenya as per the Central Bank of Kenya, (2015). The respondents in each bank were drawn from bank relationship managers, finance managers and heads of customer relationship management. Given the small size of the target population, a census was used in this study.

3.4 Data Collection Method

The study used primary data collection through the administration of structured questionnaires which were mostly administered online; some were administered through drop and pick later. The structured questionnaires were preceded by an introductory letter to gain access into the business and were designed in a manner that captures all the variables and objectives under study. The letters of introduction,

authorization and structured questionnaire are attached as per Appendix I, Appendix II and Appendix III respectively.

3.5 Data Analysis and Presentation

The study used *SPSS* and *Minitab* software applications to analyse the data collected. Descriptive methods involved summarizing data in charts and graphs. Besides using frequencies and descriptive analysis, the study also used correlation analysis to test the statistical relationship of the independent variables on the dependent variable. The data collected was analysed to meet the study objectives as follows:

Objective 1: To achieve this objective, adoption of customer relationship management systems among commercial banks in Kenya, data was descriptively analysed on the basis of central tendency and dispersion. Graphical presentations were also used.

Objective 2: To achieve this objective, respondents were presented with a list of challenges facing the adoption of CRM systems and asked to rate the extent that each challenge affected adoption of CRM in their respective banks. Factor analysis was used to extract the most significant challenges affecting the adoption of CRM system using the Eigen values. Eigen value is a measure of total variation of a given factor on all the factors that are considered in the analysis.

Objective 3: To achieve the objective on the influence CRM systems on the financial performance of commercial banks in Kenya and given the non-parametric nature of the data collected for the variables, Spearman's Rank Correlation was used to assess the association between the variables.

3.6 Research Quality

3.6.1 Validity

Wesutsa (2012) describes validity as the appropriateness, meaningfulness and usefulness of inferences a researcher makes based on the data collected. An appropriate inference is one that is relevant to the purpose of the study while a meaningful inference is one that says something about the meaning of the information obtained through the use of instrument. The results of the assessment should provide useful information about the research questions or variables being measured.

In this study, questionnaires used for the study were first subjected to pilot test. This was to ensure that the respondents clearly understood the questions asked given their responses. As a research tool, the questionnaires were further sent for review to check for validity and consistency. The questionnaire was developed and organized on the basis of the research objectives to ensure relevance of the research problem.

3.6.2 Reliability

Reliability measures the consistency of the research tool. In considering reliability, the erratic nature of a measure was taken into account and data was collected over a period of three months. In this study, Cronbach's alpha test was used to the reliability of the questionnaire.

3.7 Ethical Considerations

The study recognized the responsibility towards those who took part in the study to ensure that conflict of interest was upheld in the targeted organizations. The research employed research assistants and prior to beginning the study, the researcher requested for formal university introduction letter to gain access of the respondents. Further, an approval by the Ethics and Review Board of Strathmore University to conduct the study was sought prior to this study.

The participants in the research were asked to do so voluntarily, refusal to respond to any questions was respected and the right to confidentiality and anonymity of participants was maintained. The researcher issued letters of introduction as well as letters of authorization (See Appendix I and II) to the respondents before beginning the survey.

CHAPTER FOUR: PRESENTATION & ANALYSIS OF RESEARCH FINDINGS

4.1 Introduction

This chapter presents an analysis of the research objectives. First, a test for the adequacy of data is presented to justify the adequacy and reliability of data analysed.

4.2 Test for Sampling Adequacy

Before analysis of data was performed to achieve the objectives of the study, Kaiser-Meyer-Olkin and the Bartlett's tests were performed to determine the adequacy of sampling for the reliability of the results. The results presented in Figure 4.1 below show a measure of sampling adequacy of 0.594 which is greater than, 0.05 level of significance. This shows that the population units were adequate for the study area.

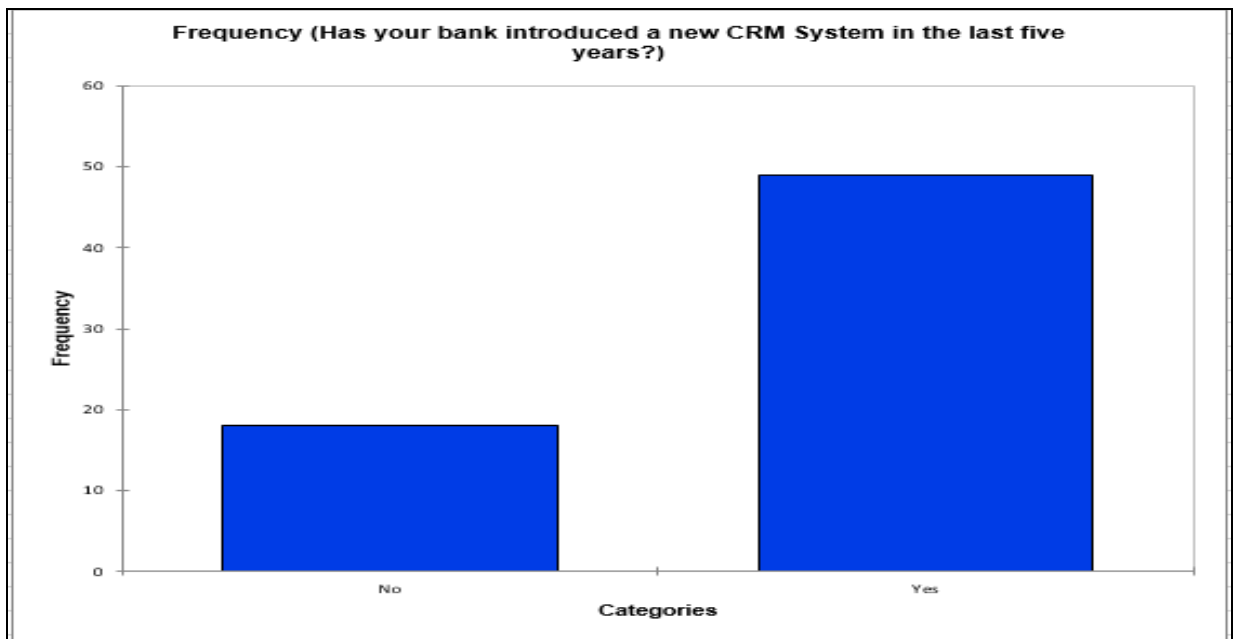
Figure 4.1: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.594
Bartlett's Test of Approx. Chi-Square		669.460
Sphericity	Df	276
	Sig.	.000

4.3 Exploratory study of the extent of adoption of CRM systems among commercial banks.

In objective 1, the study sought to explore the extent of adoption of customer relationship management systems among commercial banks over the past five years. Figure 4.2 shows the number of the responses on the implementation of CRM systems.

Figure 4.2: A histogram showing the number of frequencies of the responses on the implementation of CRM systems



4.3.1 Extent of adoption of CRM systems by different peer banks in Kenya.

Banks across three peer groups were assessed with respect to their incorporation of CRM systems over the past five years. Each of the peer groups was represented using a pie chart. For the first peer group, 16 out of 19 respondents indicated that they had not introduced a new CRM system. For the second peer group, 14 or 15 respondents had introduced new systems whereas for the third, 11 of 19 had introduced new systems. These are indicated below in Figure 4.3 below.

Figure 4.3: Peer Groups adoption of CRM System in the last five years



4.3.2 Types of CRM systems adopted by commercial banks in Kenya

It was noted that different banks had different systems that were used for varying purposes Table 4.1 provides a summary of the various systems, their purpose, and their relative proportion of use.

Table 4.1: CRM Systems – Purpose and Frequency of use

System	Purpose	Relative Frequency of use %
Oracle Sales Cloud	Sales and Leads	4.00%
Credit Quest	Credit Application Management	4.00%
Analytical CRM	Managing client relationships; track on facilities being serviced by clients; update of risk management system based on client loyalty	2.67%
Microsoft CRM		1.33%
National Care		1.33%
OMNI	checking customer details	1.33%
SAP	ERP	1.33%
CEMS	Customer experience management system	1.33%
Card Management Suite	Managing customers card transactions	1.33%
Cheque Point	For processing cheques	2.67%
Siebel	Employees log in customer issues which are then traced for closure.	2.67%
Operational	To assist in day to day running of the client databases, and general overall management of our activities.	1.33%
Straight2Bank	For Online Banking	1.33%
Avaya Telephony	Managing Customer queries, Recordings	1.33%
Credit Quest	Credit Application Management	0.00%
Insta portal	For processing KRA information	1.33%
Sybrin Systems	Managing customers' database and Information.	1.33%
Toolbox	A home-grown analytics tool that enables sales staff and relationship managers to obtain reports on the banks revenue, profitability, financial analysis, etc., on all the customers in your portfolio	1.33%
Coop CRM Suite	Managing customers online requests	1.33%
GEMS	Managing Customer queries	0.00%
Loan Tracker	Managing customers loan applications	1.33%
MICR systems	Managing Customers Cheque books requests	1.33%

4.3.3 Descriptive Analysis on the operational effects of adopting CRM systems by commercial banks.

Descriptive statistical analyses were used to analyse operational effects of adopting CRM systems by commercial banks which were asked on a Likert scale between 1 (strongly agree) to 4 (disagree) In particular measures of location and a measure of dispersion were used as shown in table 4.2 below. The results show a mean response of a truncated value of 3 meaning that the respondents largely agreed that operational efficiency improved as a result of adopting the CRM systems in their respective banks. From the measure of variability, the results show that with introduction to CRM systems in the bank, there was higher promptness in handling customer complaints or grievances since the lower the coefficient of variation the higher the compliance of a given factor.

Table 4.2: Descriptive Statistics on operational effects of adopting CRM systems by commercial banks

Variable	Median	Mean	Coefficient of Variation
CRM systems have ensured personalized attention provided by the bank to the customers.	4.000	3.535	0.211
With CRM systems, there is promptness in handling customer complains/grievances.	4.000	3.620	0.188
CRM systems have ensured professional behaviour of the employees of the bank.	4.000	3.377	0.232
CRM systems have enabled the bank to understand and serve customers better than their competitors.	4.000	3.423	0.223
Use of CRM systems has resulted to new improved / variety of products for bank customers.	3.000	3.243	0.241
CRM systems have improved processes and relationships with its customers and business partners within the bank.	4.000	3.586	0.197

4.4 Factor analysis of challenges that commercial banks as a result of adopting CRM systems.

The study established challenges that commercial banks have had as a result of adopting customer relationship management systems. Six main challenges were considered. These were assessed through six questions as presented in section D of

the questionnaire. From the data, it was essential to understand the latent factors that could be considered to drive the variability in the data collected under the section so as to provide a more succinct representation of the factors affecting adoption of CRM system. The Eigenvalue of 1 was chosen as the base value for extraction of factors; the value is in accordance with that stipulated by Kaiser, Yong and Pearce (2013).

Three components with Eigenvalues greater than 1 were observed. These accounted for 73.363% of the total variance in the section. Of these three, the first component accounted for 30% of variability hence indicating that it was the most pivotal in assessing the factors most influential in determining adoption of CRM systems. Figure 4.4 presents the various components with the accompanying scree plot presented in Figure 4.5

Figure 4.4: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings ^a
	Total	% Variance	of Cumulative %	Total	% Variance	of Cumulative %	Total
1	1.803	30.043	30.043	1.803	30.043	30.043	1.743
2	1.421	23.685	53.728	1.421	23.685	53.728	1.362
3	1.178	19.635	73.363	1.178	19.635	73.363	1.335
4	.716	11.940	85.303				
5	.510	8.508	93.811				
6	.371	6.189	100.000				

Figure 4.5: Scree Plot



The pattern matrix following Oblim Rotation was then used to identify the sorting of the variables into the emergent factors. From the matrix, it was observed that the first factor, accounting for 30.0% variability strongly loaded the variables “Rapid rate of technological change on CRM systems significantly affects business”, and “High operational costs such as need for continuous staff training are limiting”. The second factor strongly loaded the variables “CRM system in our bank does not address the client's need” and “There is a need to hire special skilled staff”; which accounted for 23.7% variability. The third loaded the factors “Initial purchase and setup cost are high” and “Adoption challenges by staff present as a problem” which accounted for 19.6% variability.

Table 4.3: Pattern Matrix

Challenge	Component		
	1	2	3
Rapid rate of technological change on CRM Systems	.877		
High operational costs	.762		
CRM system in our bank does not address clients' needs		.866	
Need to hire special skilled staff	.375	.770	
Initial purchase and set up cost			.882
Adoption challenges by staff	.378		-.704

Extraction Method: Principal Component Analysis.

Rotation Method: Oblim with Kaiser Normalization.

a. Rotation converged in 6 iterations.

4.5 Inferential Analysis on the influence of CRM systems on financial performance among commercial banks.

Given the non-parametric nature of the data collected for variables, Spearman's Rank Correlation was used to assess association between variables. The purpose of this test was to assess the presence or lack of correlation in the factors chosen to assess financial performance in commercial banks as a result of the implementation of CRM Systems. The significance level of α 0.05 was used.

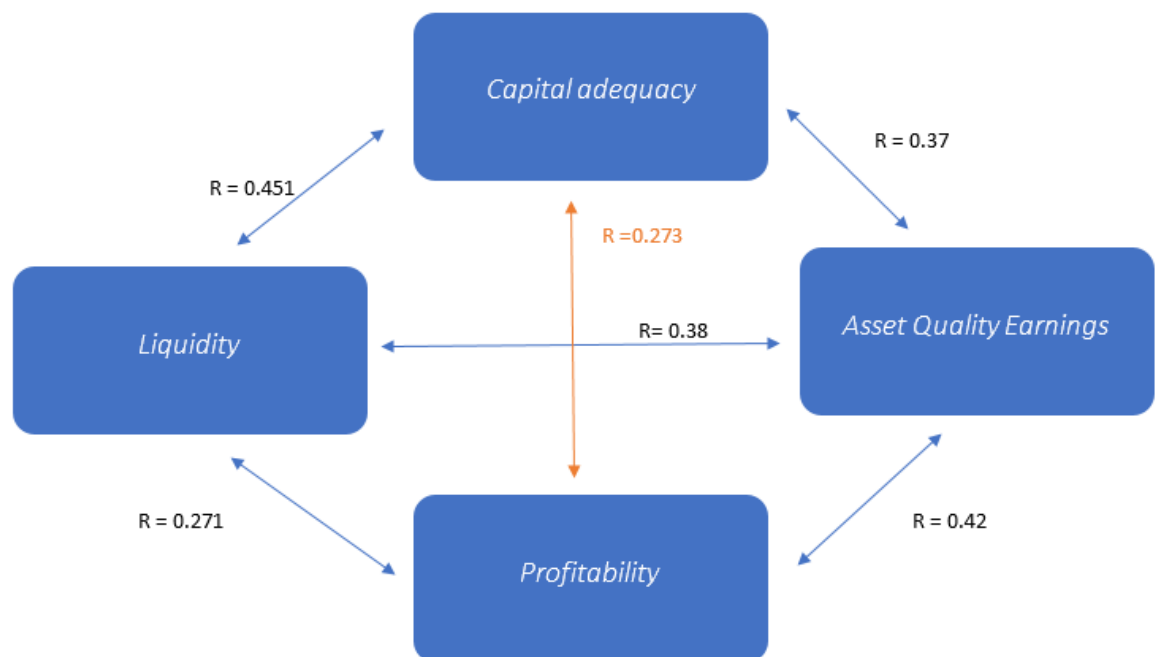
The null hypothesis was that there was no monotonic relationship between the variables. Table 4.4 shows correlation coefficients and their tests among the factors whereas Figure 4.6 shows the extent of correlations and interdependency between capital adequacy, liquidity, asset quality earnings, and profitability among banks that have implemented CRM systems.

Table 4.4: Correlation Analysis between various financial performance factors due to implementation of CRM systems.

			Capital Adequacy	Liquidity	Asset Quality	Profitability
	Capital Adequacy	Correlation Coefficient	1	0.451	0.371	0.273
		Sig. (2-tailed)		0.001	0.001	0.019
		Accept/Reject	N/A	Reject	Reject	Reject
	Liquidity	Correlation Coefficient	0.451	1	0.38	0.271
		Sig. (2-tailed)	0.001		0.001	0.021
		Accept/Reject	Reject	N/A	Reject	Reject
	Asset Quality	Correlation Coefficient	0.371	0.38	1	0.421
		Sig. (2-tailed)	0.001	0.001		0.001

		Accept/Reject	Reject	Reject	N/A	Reject
	Profitability	Correlation Coefficient	0.273	0.271	0.421	1
		Sig. (2-tailed)	0.019	0.021	0.001	
		Accept/Reject	Reject	Reject	Reject	N/A

Figure 4.6: Summary of Correlations



From Table 4.4 and Fig 4.6 it is inferred that all correlations were significant at $\alpha = 0.05$. Figure 4.6 shows that for banks that have implemented CRM system, there is a stronger relationship between capital adequacy and liquidity. However, there is a low relationship between profitability and liquidity of banks.

CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section provides a summary of findings, discussions, conclusions and recommendations for further studies. The research sought to establish the effect of CRM systems on financial performance of commercial banks in Kenya.

5.2 Discussion of the study results

The purpose of this research was to examine the effects of adopting customer relationship management systems on financial performance of commercial banks in Kenya. The study analysed the extent of adoption of CRM systems by commercial banks in Kenya and also assessed the challenges faced by commercial banks in Kenya as a result of adopting CRM systems.

5.2.1 Explore Extent of adoption of CRM systems among commercial banks

With regards to the extent of adoption of CRM systems by commercial banks in Kenya, the findings of this study have established that the response for the banks were notably varied and that the responses provided were deemed to be representative of each respective bank. With regard to implementation of CRM systems over the past five years, 73% of the responses indicated that new systems had been installed whereas 27% indicated that no new systems were adopted. It has also been established that with the adoption of CRM systems commercial banks in Kenya have improved their overall engagement with their customers and it has also led to new improved or variety of products for bank customers.

5.2.2 Establish challenges that commercial banks in Kenya face as a result of adopting CRM systems

For the challenges faced by commercial banks in Kenya as a result of adopting CRM systems, the pattern matrix following Oblim Rotation was used to identify the sorting of the variables into the emergent factors. Three components with Eigen values greater than 1 were obtained. It was established that the main challenges observed in the adoption of CRM systems were rapid rate of technological change on CRM

systems and high operational costs such as need for continuous staff training resulting in the need to hire skilled staff.

5.2.3 Impact of CRM systems on financial performance of commercial banks in Kenya

As for the influence of adopting customer relationship management systems among commercial banks in Kenya, the objective was measured against various variables namely: capital adequacy, liquidity, asset quality, earnings, improved operations, cost reduction, profitability, competitive positioning, service quality and efficiency. The study established that at 0.01 and 0.05 levels of significance, the p-values under two-tail were relatively small implying that the correlation was significant hence all the variables studied were linearly related and that adopting CRM systems does influence the financial performance of commercial banks in Kenya.

5.3 Conclusions of the research findings

The results of the study show that adoption of CRM systems has greatly improved customer experience in the banking industry. It is therefore important for banks to embrace the technology to improve service delivery and create more opportunities for innovations. Also, the benefits of implementation of CRM systems outweigh the costs. Therefore, for higher profitability in the banking industry, banks should implement CRM systems in their day to day operations.

5.4 Recommendations from the study

The following are the recommendations that are derived from the study in order for commercial banks to improve performance as a result of adopting CRM systems:

5.4.1 Managerial Implications

There is need for commercial banks in Kenya to adopt CRM systems that meet their needs. From the study some financial institutions adopted different CRM systems for different functions, in so doing financial institutions may ultimately compromise on their performance as a lot of time and funds has to be put aside for staff acquisition, trainings, maintenance and actual investment of the CRM systems themselves thus turning out to be less cost efficient for the financial institution.

Secondly, with the recent adoption of International Financial Reporting Standard (IFRS 9) which addresses the accounting for financial instruments, commercial banks that have CRM systems will be able to use this data to analyse the impact of this new accounting standards whereas those without reliable CRM system may have to rely on financial consultants to undertake this analysis for them at a cost, hence the need to adopt CRM systems.

5.4.2 Policy Implications

Finally, for policy purposes within the banking industry, there's need for enactment of policy within the Banking Act requiring all commercial banks in Kenya to have CRM systems that meet certain thresholds for purposes of reporting. This will ensure that information reported for the banking industry in Kenya is near accurate and can be relied upon for decision making both at industry level and at macro level.

5.5 Limitations of the Study

The current research was based on all the commercial banks in Kenya. Considering that the Central Bank of Kenya provides classification of banks into Tiers (Tier 1, Tier 2 and Tier 3) the results thus provided a wider scope and it may not be possible to generalise the study findings to all the tiers within the banking industry.

The commercial banks in Kenya that formed part of the study can also classified as either local banks or international banks and as such may each present different unique characteristics that may affect the rate of adoption of CRM systems and subsequently its effect on financial performance of the said banks.

5.6 Suggestions for Further Research

The study focused on analysing the effects of adopting customer relationship management systems on financial performance of commercial banks in Kenya. Further research could be performed to compare banks within each tier. This would address unique characteristics of each tier of commercial banks in Kenya.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

Dear Respondent,

I am a student at Strathmore University Business School undertaking a Master of Business Administration Degree. As part of the requirements in my program, I am carrying out a study on **‘effect of adoption of customer relationship management systems on the financial performance of commercial banks in Kenya’**

To achieve this, you are invited to participate in this academic research study being conducted. You are part of a carefully selected group that has been asked to participate in this academic research study and I greatly appreciate your assistance.

Please note that;

1. The responses are anonymous and confidential;
2. Approximately 15minutes will be required to complete the questionnaire;
3. Participation in the study is voluntary and important;
4. Your responses will be used for academic purposes only;
5. The findings can be availed on request only;
6. Should you have any difficulties in responding, please contact me at the email address: chrismungla@gmail.com or call me at +254766398

Please sign the form to indicate that;

1. You read the information and
2. You have given your consent

Thank you for your participation

Respondent's signature..... Date

APPENDIX II: LETTER OF AUTHORIZATION



Strathmore Business School

Tuesday, 11 April 2017

To Whom It May Concern:

Dear Sir/ Madam,

RE: FACILITATION OF RESEARCH – CHRISTINE MUNGLA

This is to introduce Christine Mungla, who is an MBA student at Strathmore Business School, admission number **MBA/87009/15**. As part of our Masters Program, Christine is expected to do applied research and to undertake a project. This is in partial fulfillment of the requirements of the Master of Business Administration course. To this effect, she would like to request for appropriate data from your organization.

Christine is undertaking a research paper on “**Effects Of Adopting Customer Relationship Management Systems On Financial Performance Of Commercial Banks In Kenya**” The information obtained from your organization shall be treated confidentially and shall be used for academic purposes only.

Our MBA seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research, and we trust that you will find them of great interest and of practical value to your organization.

We very much appreciate your support and we shall be willing to provide any further information if required.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Muriithi Njogu'.

Mr. Muriithi Njogu,
Director – MBA Programs.



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UNIVERSITY

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APPENDIX III: SAMPLE QUESTIONNAIRE

Date	
------	--

My name is Christine Mungla, I am a student at Strathmore University Business School undertaking a Master of Business Administration Degree. As part of the requirements in my program, I am carrying out a study on ‘**effect of adoption of customer relationship management systems on the financial performance of commercial banks in Kenya**’. I would like you to spend a few minutes to fill the questionnaire and note the information provided will be used for academic purpose only and will be treated with utmost confidentiality.

Instructions

Kindly respond to all the questions by ticking and or giving comments where necessary.

SECTION A: GENERAL INFORMATION

1. Profile of Respondent:

Indicate name of bank

.....

Position Held in the

Bank.....

Head of IT

Head of Finance

Project Manager

Head of Customer Care

Relationship Manager

How long have you worked in the Banking Sector? Tick as Appropriate

Less than 1 year **1 -5 years** **6-10years** **Over 10 years**

2. Has your bank introduced a new CRM System in the last 5years? Yes No

If your answer to the above question is **YES**, what was the approximate expenditure dedicated to CRM system innovation/development in the following years?

Product	2015	2014	2013	2012	2011
CRM system and software					

--	--	--	--	--	--

3. Please indicate which CRM systems/tools are currently used in your organization and for what purpose:

No	Type of CRM system/tool	Purpose
i.		
ii.		
iii.		
iv.		
v.		

SECTION B: ADOPTION OF CUSTOMER RELATIONSHIP MANAGEMENT SYSTEMS IN COMMERCIAL BANKS.

What is your level of agreement with the following statements that relate to use of CRM systems in your bank? Use keys as follows:-

1- Strongly agree 2- Agree 3- Neutral 4- Disagree

	Statement.	Strongly disagree	Disagree	Agree	Strongly agree
		[1]	[2]	[3]	[4]
a)	CRM systems have ensured personalized attention provided by the bank to the customers				
b)	With CRM systems there is promptness in handling customer complains/grievances.				
c)	CRM systems have ensured professional behaviour of the employees of the bank				
d)	CRM systems have enabled the bank to understand and serve customers better than their competitors.				
e)	Use of CRM systems has resulted to new improved / variety of products for bank customers				
f)	CRM systems have improved processes and relationships with its customers and business partners within the bank.				

SECTION C: CRM SYSTEMS AND FINANCIAL PERFORMANCE IN COMMERCIAL BANKS.

What is your level of agreement with the following statements that relate to CRM systems and financial performance in your bank? Use keys as follows:-

1- Strongly agree 2- Agree 3- Neutral 4- Disagree

	Statement.	Strongly disagree	Disagree	Agree	Strongly agree
		[1]	[2]	[3]	[4]
a)	Would you agree that the adoption of CRM systems is very important in the improvement of capital adequacy in your bank?				
b)	Would you agree that the adoption of CRM systems has led to an improvement in the liquidity position of your bank?				
c)	Would you agree that the adoption of CRM systems has contributed to the improvement of asset quality in your bank?				
d)	Would you agree that the adoption of CRM systems is very important in the improvement of earnings of commercial banks?				
e)	Do you agree that commercial banks are adopting CRM systems to improve their operations?				
f)	Would you agree that use of CRM systems has led to significant cost reduction within the bank?				
g)	Do you agree that commercial banks are adopting CRM systems to improve their financial performance?				
h)	To what extent has use of CRM systems affected the financial performance of your bank in the following aspects:				
	• Profitability				
	• Competitive Positioning				
	• Service Quality				
	• Efficiency				

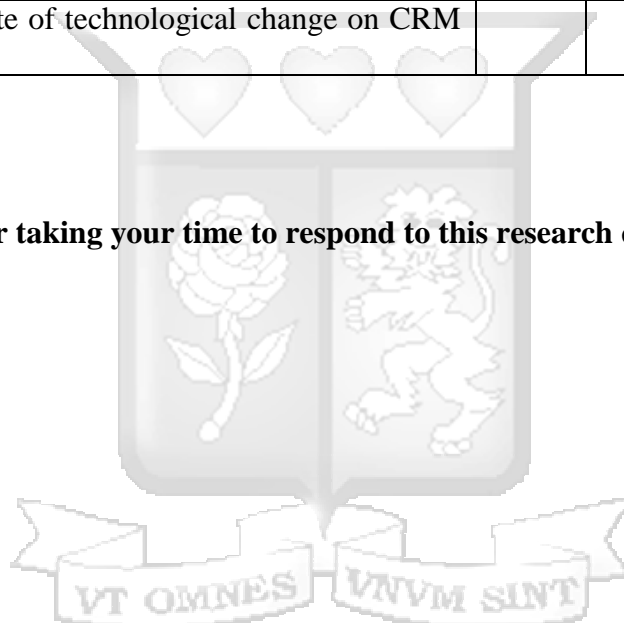
SECTION D: CHALLENGES FOR ADOPTING THE CRM SYSTEM

Please indicate to what extent do you agree with the following challenges of adopting the CRM system. Use keys as follows:-

1- Strongly agree 2- Agree 3- Neutral 4- Disagree 5-Strongly Disagree

	Aspects	1	2	3	4	5
a)	Initial purchase and set up cost					
b)	Need to hire special skilled staff					
c)	Adoption challenges by staff					
d)	High operational costs such as need for continuous staff training					
e)	CRM system in our bank does not address the client's needs					
f)	Rapid rate of technological change on CRM systems.					

Thank you for taking your time to respond to this research questionnaire.



APPENDIX IV: LIST OF COMMERCIAL BANKS IN KENYA

1. Kenya Commercial Bank Limited	23. Consolidated Bank of Kenya Limited
2. Barclays Bank of Kenya Limited	24. Equatorial Commercial Bank Limited
3. Co-operative Bank of Kenya Limited	25. African Banking Corporation Limited
4. Standard Chartered Bank Limited	26. Giro Commercial Bank Limited
5. Equity Bank Limited	27. Gulf African Bank Limited
6. Stanbic Bank Limited	28. Fidelity Commercial Bank Limited
7. Commercial Bank of Africa Limited	29. Habib AG Zurich
8. I & M Bank Limited	30. Guardian Bank Limited
9. Citibank N.A. Limited	31. Sidian Bank Limited
10. National Bank of Kenya Limited	32. First Community Bank Limited
11. Diamond Trust Bank Limited	33. Victoria Commercial Bank Limited
12. NIC Bank Limited	34. Habib Bank Limited
13. Prime Bank Limited	35. Trans-National Bank Limited
14. Bank of Baroda Limited	36. M Oriental Commercial Bank Limited
15. Ecobank Limited	37. Credit Bank Limited
16. Bank of Africa Limited	38. Paramount-Universal Bank Limited
17. Chase Bank Limited (IR)	39. Middle East Bank Limited
18. Family Bank Limited	40. UBA Kenya Bank Limited
19. Bank of India	41. Dubai Bank Limited (IR)
20. Imperial Bank Limited (Under Statutory Management)	42. Jamii Bora Bank Limited
21. GT Bank Limited	43. Charterhouse Bank Limited (IR)
22. Development Bank of Kenya Limited	44. Housing Finance Company of Kenya Limited

(Source: Central Bank of Kenya, 2016)

**APPENDIX V: THE TIER SYSTEM OF CLASSIFICATION FOR
COMMERCIAL BANKS IN KENYA**

Ranking	Tier 1 Commercial Banks in Kenya	Tier 2 Commercial Banks in Kenya	Tier 3 Commercial Banks in Kenya
	<ul style="list-style-type: none"> • Equity Group • KCB Group • Co-operative Bank Kenya Limited • Standard Chartered Bank Kenya Limited • Barclays Bank of Kenya • Commercial Bank of Africa 	<ul style="list-style-type: none"> • Family Bank • I&M Bank • NIC Bank • Diamond Trust Bank • Bank of Africa • Housing Finance • Ecobank • Prime Bank • Bank of Baroda • Stanbic Bank • Citibank • Guaranty Trust Bank • National Bank of Kenya • Bank of India • Chase Bank (IR) 	<ul style="list-style-type: none"> • Jamii Bora Bank • ABC Bank • Credit Bank Limited • Paramount Universal • Consolidated Bank of Kenya • Development Bank of Kenya • Fidelity Bank • Equatorial Commercial Bank • Giro Commercial Bank • Guardian Bank • Middle East Bank • MOriental Commercial Bank • Paramount Universal Bank • Trans-National Bank • Victoria Commercial Bank • First Community Bank • Habib A.G Zurich Bank • Habib Bank • Gulf Africa Bank • Sidian Bank • UBA Bank • Charterhouse Bank (IR)
Ranking	Tier 1 Commercial Banks in Kenya	Tier 2 Commercial Banks in Kenya	Tier 3 Commercial Banks in Kenya
Total Count	6	15	22

Market Share	49.9%	41.7%	8.4%
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Source: The Researcher (2017)



APPENDIX VI: SPEARMAN'S CORRELATIONS

Spearman's Correlations

		Capital Adequacy	Liquidity	Asset Quality	Commercial Banks	Improved Operations	Cost Reduction Within Banks	Financial Performance	Profitability	Competitive Positioning	Service Quality	Efficiency
Capital Adequacy	Correlation Coefficient	1.000	.451**	.371**	.494**	.375**	.386**	.502**	.273*	.129	.045	.196
	Sig. (2-tailed)		.000	.001	.000	.001	.001	.000	.019	.277	.705	.097
	N	73	72	72	73	71	72	72	73	73	72	73
Liquidity	Correlation Coefficient	.451**	1.000	.380**	.220	.174	.348**	.321**	.271*	.354**	.260*	.174
	Sig. (2-tailed)	.000		.001	.063	.150	.003	.006	.021	.002	.029	.143
	N	72	72	72	72	70	72	72	72	72	71	72
Asset Quality	Correlation Coefficient	.371**	.380**	1.000	.446**	.224	.408**	.416**	.421*	.183	.195	.252*
	Sig. (2-tailed)	.001	.001		.000	.063	.000	.000	.000	.124	.103	.033
	N	72	72	72	72	70	72	72	72	72	71	72
Earnings of Commercial Banks	Correlation Coefficient	.494**	.220	.446**	1.000	.299*	.178	.414**	.506*	.303**	.079	.175
	Sig. (2-tailed)	.000	.063	.000		.011	.135	.000	.000	.009	.507	.139
	N	73	72	72	73	71	72	72	73	73	72	73
Improved Operations	Correlation Coefficient	.375**	.174	.224	.299*	1.000	.285*	.348**	.399*	.219	.287*	.225
	Sig. (2-tailed)	.001	.150	.063	.011		.017	.003	.001	.066	.016	.059
	N	71	70	70	71	71	70	70	71	71	70	71
Cost Reduction	Correlation Coefficient	.386**	.348**	.408**	.178	.285*	1.000	.597**	.198	.182	.262*	.297*

Withi n Banks	Sig. (2- tailed) N	.001 72	.003 72	.000 72	.135 72	.017 70		.000 72	.095 72	.126 72	.027 71	.011 72
Finan cial Perfor manc e	Correlation Coefficient Sig. (2- tailed) N	.502** .000 72	.321** .006 72	.416** .000 72	.414** .000 72	.348** .003 70	.597** .000 72	1.000 72	.373* .001 72	.282* .016 72	.402** .001 71	.445* .000 72
Profit ability	Correlation Coefficient Sig. (2- tailed) N	.273* .019 73	.271* .021 72	.421** .000 72	.506** .000 73	.399** .001 71	.198 .095 72	.373** .001 72	1.000 .004 73	.333** .077 73	.210 .077 72	.235* .045 73
Comp etitive Positi oning	Correlation Coefficient Sig. (2- tailed) N	.129 .277 73	.354** .002 72	.183 .124 72	.303** .009 73	.219 .066 71	.182 .126 72	.282* .016 72	.333* .004 73	1.000 .000 73	.594** .000 72	.535* .000 73
Servic e Qualit y	Correlation Coefficient Sig. (2- tailed) N	.045 .705 72	.260* .029 71	.195 .103 71	.079 .507 72	.287* .016 70	.262* .027 71	.402** .001 71	.210 .077 72	.594** .000 72	1.000 .000 72	.664* .000 72
Effici ency	Correlation Coefficient Sig. (2- tailed) N	.196 .097 73	.174 .143 72	.252* .033 72	.175 .139 73	.225 .059 71	.297* .011 72	.445** .000 72	.235* .045 73	.535** .000 73	.664** .000 72	1.000 73

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

Correlation is significant at the 0.05 level (2-tailed).