The impact of Customer Retention Strategies on Customer Loyalty and Satisfaction in Zimbabwean Commercial Banks (2014-2015).

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Abstract
With the continuous growth of competition in the market place, understanding customers has become an increasing important aspect in marketing. This study sought to determine the effectiveness of customer retention strategies on performance of commercial banks in Zimbabwe. A Descriptive research design was used and the study targeted a population of bank customers and staff. A total of 75 respondents were selected using simple random sampling from the customers of 5 commercial banks chosen. Primary data was collected through questionnaires and interviews. Findings show that most commercial banks in Zimbabwe are failing to meet customer expectations. The results indicate that Customer Retention strategies have a positive impact on customer loyalty and satisfaction. Therefore, to win customers' hearts in the current Zimbabwean economy, banks have to invest more in the improvement of the identified attributes and always keep an eye on the changing customer needs and preferences.
Key Words: *Customer Satisfaction, Customer Loyalty, Retention Strategies, Profitability, Service Quality, Commercial Banks*

.1.0 INTRODUCTION

The deregulation of the Zimbabwean banking sector since 1990 has led to the mushrooming of several players thus stiffening competition; banks therefore have to make efforts to survive in a competitive and uncertain market place (Michalakoulos and Blery, 2006). The past two decades have witnessed an escalation in the number of Zimbabwe's commercial banks from 9 banks in 1999 to 16 banks in 2015 (RBZ, 2015). This has resulted in a stiff competitive environment characterized by low or non-existent switching costs (James, 2012). Moreover, the general populace in Zimbabwe lost confidence in the banking sector after the numerous bank closures that affected the industry in 2004. According to the Banking Survey (2009), the introduction of the multiple currency system in Zimbabwe has also seen a number of commercial banks in Zimbabwe losing substantial market shares, for example Agribank's market share dropped from 11% to 8%, ZB bank from 13.5% to around 10% and NMB from 9% to around 7%. King (2000) observed that financial institutions took a relaxed approach (demand following) instead of been aggressive in soliciting for business and innovate (supply leading).

According to the RBZ (2003), it has been noted that many banks were failing to meet the requirements set by the RBZ hence they faced serious problems of instilling confidence into their clients. Since commercial banks have little control over macro-economic conditions, they are left with no option but only to invest heavily in quality service delivery (Lwiza and Nwankwa, 2006). Also the emergence of many mobile banking players has also eroded a significant portion of commercial banks' market shares. Furthermore, the rapid mushrooming of many Micro-Finance Institutions (MFIs) offering flexible, favourable loans to people even to SMEs, exerted unparalleled pressure on the traditional banking institutions. Ouma *et al.*, (2013) postulate that banks that will succeed in the economy will be those that are able to attract and retain customers on the basis of a sustainable blend of superior customer service and relevant and diversified product offerings. It is expected that commercial banks in Zimbabwe which will adopt and practice customer retention strategies will outdo competitors with lax strategies.

1.1 Research Questions.

1. How have commercial banks in Zimbabwe responded to the contemporary competitive challenges?
2. What is the impact of customer retention strategies on customer loyalty, satisfaction and corporate image?
3. Is there any relationship between customer retention strategies and overall bank profitability?

2.0 LITERATURE REVIEW

According to Parasuraman *et al* (2009), customers (internal and external) in every organization are the first organizational assets which it must take care of because it determines the organizational profitability. It is a service provider task to ensure customer feels well treated and cared for in every step of the way (Gronroos, 2008). Customer retention can be seen as the mirror image of customer defection, where a high retention rate has the same significance as a low defection rate. Customer retention is concerned with repeated patronage, which is closely related to repeat-purchasing behavior and brand loyalty (Buttle, 2014). Customer retention involves a focus on existing customers with an intention to develop long-term relationships with them which will lead to the generation of further business (Ang and Buttle, 2006). Reichhheldd and Sasser (2010) suggest that there is a high degree of correlation between customer retention and profitability. Established customers tend to buy more, are predictable and usually cost less to serve than new customers.

Due to the recent environmental changes characterized by increased customer choice, the rapid growth in competition and changing consumer landscape, businesses have witnessed a strategic move away from 'offensive marketing' aimed at getting new customers to 'defensive marketing', focused on customer retention (Gronroos *et al*, 2010). According to Sin *et al*,(2012) in order for a commercial bank to maximize its long term performance in such areas as customer retention, it is obliged to build, maintain and enhance long-term and mutual beneficial relationships with its target customers. It may cost five times more to attract new customers than it would to retain current customers as direct or offensive marketing requires much more extensive resources to cause defection from competitors (Kotler, 2012). It is claimed by Reichheld and Sasser (2010) that, 5% improvement in customer retention can cause an increase in profitability of between 25% and 85% (in terms of NPV) depending on the industry. Payne (2010) illustrated how an additional £5.5 million increase in expenditure, when directed at increasing the number of `very satisfied' existing customers, could result in an £18 million increase in profitability. They computed that the additional expenditure would increase the number of `very satisfied' customers by 6%.

Cooper (2010) propounds that customer retention helps increase revenue through increases in sales volume and/or premium prices as well as reducing the expenses or costs of generating those revenues. Buttle (2014), as well concurs with Cooper (2010) that customer retention can improve company performance through increased profits generated by retained customers and it is better off than spending resources to attract new customers. This assertion was further supported by Parasuraman *et al*, (2013) who argued that, it is very difficult to acquire and attract new customers to the bank since there are some cost involved in it such as marketing, advertising, training staff to provide quality services to the bank clients, adopting new technology, renovations of the buildings and reducing bank charges. An increase in retention rate has been argued to have led to a corresponding increase in profit (Gummerson, 2012). Similarly, Gronroos *et al*, (2012 many studies emphasize the benefits of customer retention in improving firm value and ultimately increasing a firm's profits. Hence, for managers to compete successfully in today's market place it is a top priority for them to develop sound and profitable customer retention strategies (Sin, 2008).

According to Cohen *et al* (2006), customer satisfaction has for, many years been perceived as a key determinant of why customers leave or stay with an organization. Organizations need to know how to keep their customers even if they appear to be satisfied. Satisfaction is a major drive of customer retention and loyalty, therefore, achieving high consumer satisfaction is a key goal of practitioners (Oliver, 2013). In support of the above, Zeithaml (2012) states that satisfaction is important to the marketer because it is generally assumed to be a significant determinant of repeat sales, positive word of mouth and customer loyalty. They argued that the more satisfied customers are the greater their retention will be. According to Payne (2010), institutions should seek to generate profits at the same time satisfying their potential and existing customers. Research has shown that profit and growth are a function of customer loyalty; this is a direct result of customer satisfaction and is also largely influenced by the value of services according to provide to the customers. Customer loyalty was found to be the most important determinant of profits. In an article, Reichheld and Sasser (2010) estimated that a 5% increase in customer loyalty could produce profit increase from 25% to 85%.

Image is viewed as a cumulative construct that is updated each time the customer experiences the service. Barrich and Kottler (2010) observed that as for the influence of perceived service quality and corporate image, a company will have a strong image if customers believe that they are getting high value when offered with services and products hence retention. Payne (2010) argues that corporate image is a tool for competitive advantage and there is a quite clear and explicit rapport between corporate image and performance of the corporation. So it has been put forward that corporate image is the readily available impression of the organization (Gummerson, 2012). Zeithaml (2011) concludes that commercial banks therefore, must create a brand environment in which the personnel, the physical layout, the use of technology and the banking products, employees collaborate to serve and support customer experience of value hence customer retention. It is corporate image that relates directly to the probability of retaining customers for the firm (Ball, 2006; Nguyenan and Leblanc, 2009). Harwood (2012) argued that branding, as a tool to build image, is critical in the banking industry where all firms, offer about the same kind of products.

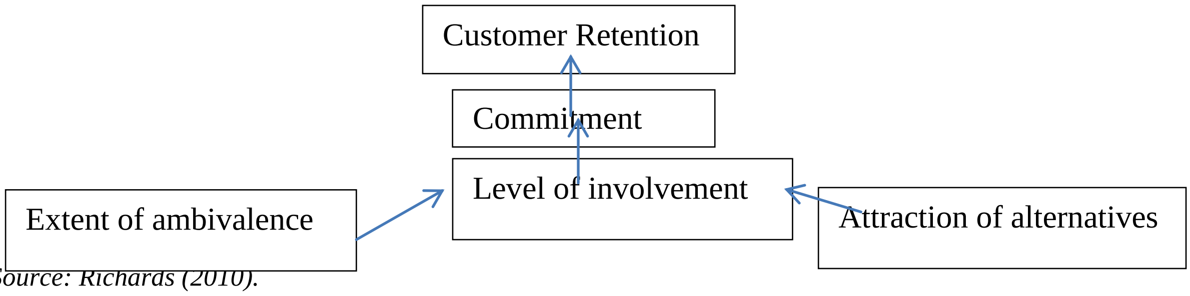
2.2.1 SERVQUAL Model.

SERVQUAL is a multi-item scale, which stands for service quality developed by Parasuraman, Zeithaml and Berry (2013), to assess customer perceptions on service quality in service and actual experience. SERVQUAL when originally developed in 1985 was measuring 10 aspects of service quality. After the original SERVQUAL model was seen to be complex, subjective and statistically unreliable, it was modified in the early 1990s and proponents refined the model to the useful acronym RATER, which stands for responsiveness (willingness to help customers and provide prompt services), assurance (knowledge and courtesy of employees and their ability to gain trust and confidence), tangibles (physical facilities, equipment and personnel appearance), empathy (providing individualized attention to the customers) and reliability (ability to perform the promised service dependably and accurately) (Zeithaml, Parasuraman and Berry, 2013). The simplified model is simple and has been useful for quantitatively assessing customers' experiences in service (Zeithaml *et al*, 2013). The purpose of SERVQUAL is to serve as a diagnostic methodology for uncovering wide areas of an organization's service quality weaknesses, strength and discovering the main requirements for delivering high service quality (Zeithaml *et al.*,2013).

2.2.2 Richard's Conversion Model.

Richards (2012) provided a conversion model based on the fact that it is not enough to satisfy a customer as satisfaction alone does not predict customer behavior. Rust and Olive (2013) agree that satisfied customers will leave, dissatisfied customers will remain and therefore, rather than discussing customer satisfaction, firms should also discuss customer commitment. According to Payne (2010), customer satisfaction helps to make customers committed, however, the building of committed customers involves more than merely satisfying them. Richards (2012) identified three factors as drivers of commitment in building his model which are level of involvement, attraction of alternatives and the extent of ambivalence.

Figure 1: Richard's Conversion Model.



Source: Richards (2010).

Oliver (2015) supports Richard's model by stating that not only customers who are satisfied can remain loyal but continuous attention and involvement is needed to retain them. This model was applied by Rust 2013) in Tanzanian commercial bank and the results showed that low levels of attrition and involvement results in customers' commitment hence customer retention.

2.3 Empirical Evidence

2.3.1 Choudhury's (2007), study explored the dimensions of customer perceived service quality in the context of the Indian retail banking industry. Service quality parameters were been used in the context of 4 of the largest banks in India to identify the underlying dimensions of service quality using factor analysis. The study suggested that customers distinguish four dimensions of service quality, namely: attitude, competence, tangibles and convenience. The findings revealed that 40% of the respondents can spread a positive Word of Mouth. The results show strong support for intuitive notion that improving service quality can increase favourable behavioural intentions namely, WOM (word of mouth) communication and purchase intentions, and decrease unfavourable intentions, like complaining behaviour. The results provide evidence of the usefulness of service quality research, since WOM communication and purchase intentions have been suggested as important dimensions of the concept of service loyalty (Choudhury, 2007).

2.3.2 Cohen *et al*, (2006) conducted a study to examine the construct that impact on consumers' decision to stay with or leave their current banks in New Zealand. The sample size of 1920 was computed and obtained a useable response rate of 28%. The hypotheses were tested using chi square test, t-test and ANOVA. The results of the study revealed that many customer defections are influenced by the system under which employees operate and this manifests itself to the customer in the form of staff indifference and incompetence. Customers should be satisfied for them to remain loyal with a particular bank.

2.3.3 Muhamed (2013**)** conducted a study; how banks in Jordan promote long-term strategies in an effort to attract and retain loyal customers. The study used an explanatory qualitative design and nine different Jordanian banks participated. Findings revealed relational strategies; tactics and tools used to achieve customer retention used by commercial banks and benefits of customer retention. Findings show that internal marketing is important for achieving retention. Drivers such as satisfaction, loyalty, closeness, commitment, transparency, communication and quality service were found to be critical in banks efforts toward fulfilling relational strategies.

3.0 METHODOLOGY

3.1 Research Design.

Research design is a master plan that specifies the methods and procedures for collecting and analyzing data (Saunders and Lewis, 2010). Descriptive research design is both qualitative and quantitative as the research seeks to collect data that permits us to describe the characteristics of the phenomena being studied (Leedy, 2000). Descriptive research enabled the researcher to interpret the data gathered as it appears and to compare the sample of commercial banks under study, in terms of service delivery to customers, and to identify and closely determine whether CRS were being practised in commercial banks. A mixed approach to research was used in this study. The approach combined both the qualitative research design and a quantitative approach.

3.2 Data Sources

The major sources of primary data were existing customers and managers of commercial banks. The researchers used the primary source to gather data on customer retention strategies by commercial banks in Zimbabwe. It enabled the researchers to get the information needed through probing and directly collects data that have not been previously collected. Secondary Data came textbooks, economic and financial journals, publications on customer retention were consulted.

3.3 Data Collection Techniques.

From 105 questionnaires distributed, 30 were for bank staff and 75 for corporate bank customers. The researchers physically administered the questionnaires to research participants. Other previous instruments frequently used to measure service quality were adopted with their closed question format. A total of ten interviews were conducted; two in each of the five banks. A standard interview guide was used containing a number of customer retention strategies.

3.4 Sampling Design

The population for this study consisted of managers and clients of the 16 commercial banks in Zimbabwe. The sampling frame comprised of bank staff and customers of 5 commercial banks in Harare. From that sampling frame, simple random sampling was used to pick 6 staff members per bank as participants. Convenience sampling was then used to select 25 clients per bank as questionnaire respondents. Finally, judgemental sampling was then utilised to select 2 interviewees per bank.

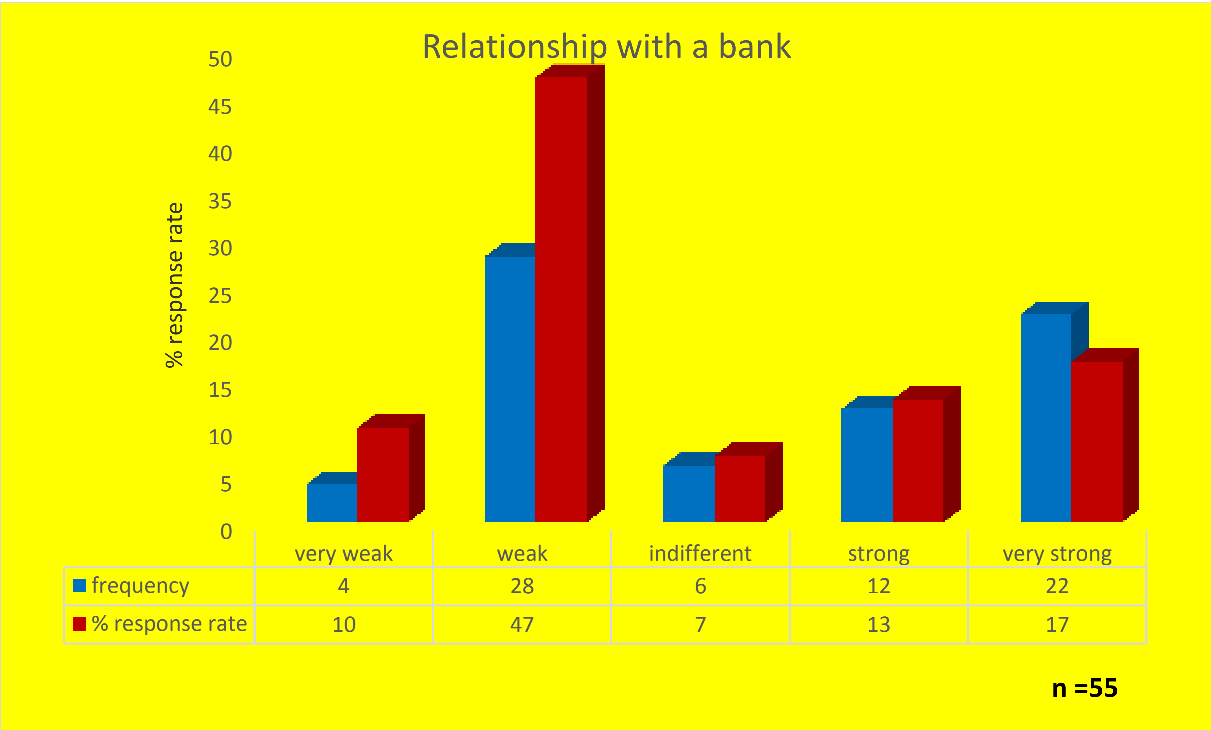
4.0 FINDINGS

4.1 Response Rate Analysis

Out of the 30 questionnaires distributed to bank staff members, 25 were successfully completed representing a response rate of 83%. Of the 75 questionnaires distributed to bank customers, 55 questionnaires were successfully completed resulting in a 76% response rate. All scheduled interviews were conducted.

4.2 Respondents' relationship with the bank

Fig. 2: Relationship with a bank

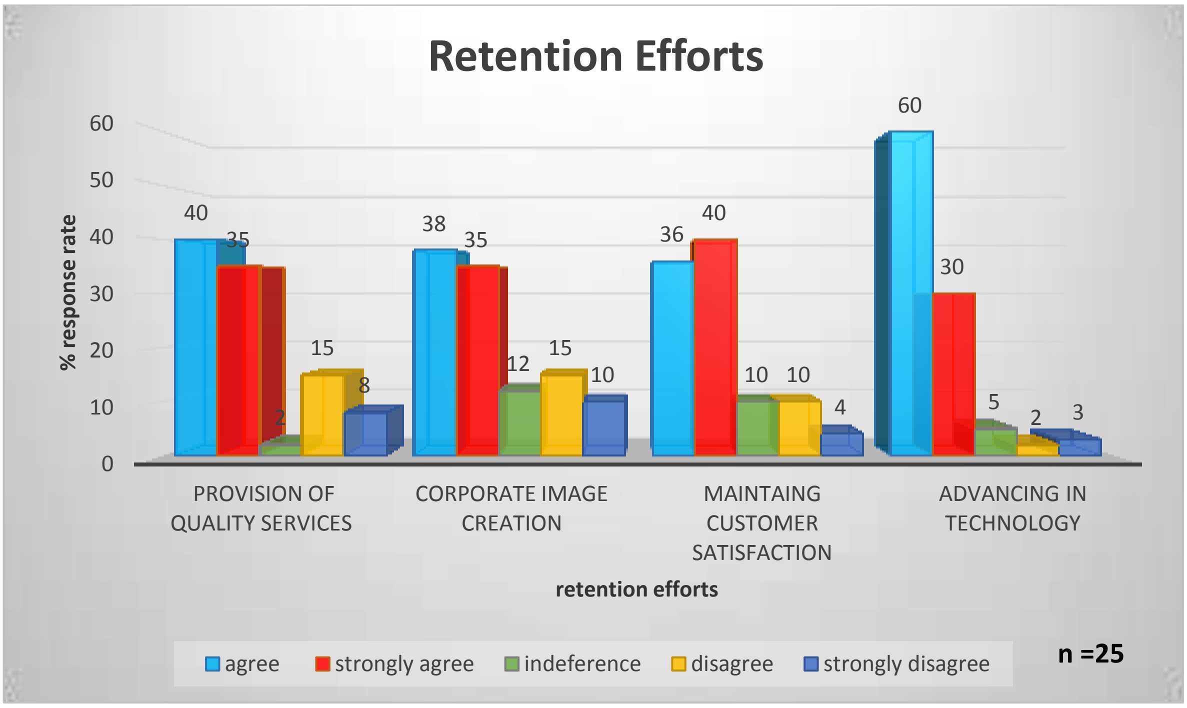


Source: Raw Data (2015).

Fig. 2 above shows that most customers, 57%, are in a weak relationship with banks. Only 30% were positive. This implies that customer are not satisfied with their banks and the provision of services by bank staff. Such a high figure of displeasure signals that banks have a lot to do in building lasting profitable relationships with customers. Similar findings were obtained in Tanzania by Msoka and Msoka (2014) who found out that bank staff are in a weak relationship with their customers, with only 20% of clients satisfied with products and services offered by the bank.

4.3 Customer retention efforts in Commercial banks

Fig. 3: Customer retention efforts

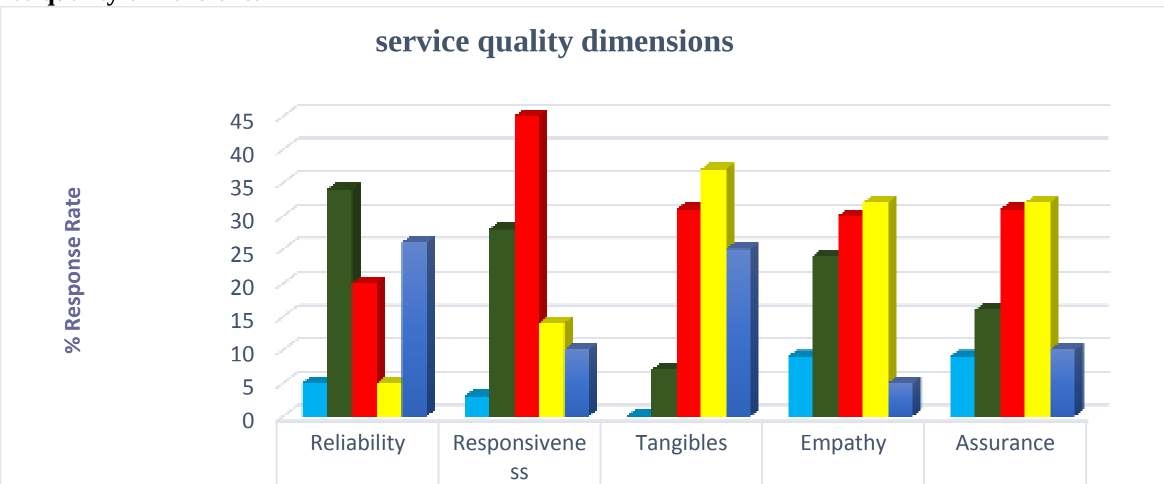


Source: Raw Data (2015)

Fig. 3 above reveals that advancing in technology has got a favourable response rate of 60%. Provision of quality services showed a response of 40%. Corporate image creation revealed 38% response rate and 30% responded that maintaining customer satisfaction is also an effort to retain customers. This implies that commercial banks are advancing in technology to attract and retain customers and they are also making efforts to provide quality services so as to retain them. These findings concur with Cohen *et al*, (2006) in which 28% responded that many customer defections are influenced by the system under which employees operate and this manifests itself to the customer in the form of staff indifference and incompetence.

4.5 Service Quality dimensions

Fig.4 Service quality dimensions.



	Reliability	Responsiveness	Tangibles	Empathy	Assurance
Strongly Disagree	5	3	0	9	9
Disagree	34	28	7	24	16
Indifferent	20	45	31	30	31
Agree	5	14	37	32	32
Strongly Agree	26	10	25	5	10

Source: Raw Data (2015) **n =80**

From the Figure 4.9 above, it can be clearly shown that the majority of the customers disagree with the reliability of bank services. 57% of the respondents are against the reliability of services offered by commercial banks in Zimbabwe. According to the 37% of agreement on tangibles it shows that most banks have managed to make their services tangible. The good appearances of most banks is evidenced by 61% of the total size which are saying that banks are trying their best to meet the requirements of clients as far as tangibles are concerned. Although 32% of the sample size said that bank employees are taking care of them in a satisfying way but the majority tend to disagree with this since 63% of the whole sample size is against this idea. This implies that employees are not caring much their clients.

4.5 Ways to motivate employees to provide quality services

From the interviews conducted, a large number of bank staff pointed out that banks have to improve on their technology so as to reduce the work load. The responses show that, bank staff are doing multiple tasks which is stressful and therefore have limited time to attend to customer queries and answering customers phone calls. They raised the issue of increasing salaries as well as promotions so that they can be motivated to do their work. Lastly, training and staff development was mentioned so that staff skills keep abreast with the dynamic environment.

4.6 Ways in which Banks can improve their relationship with clients

Respondents pointed out that banks have to customize their services as a retention strategy. Respondents also pointed out that they are to make greater efforts to retain customers through advancing in technology, lowering bank charges, renovating the physical structure of the banking halls as well as attending to customer queries in time so as to avoid dissatisfaction.

4.7 Major reasons why customers switch to other banks

Respondents mentioned that customer dissatisfaction is mainly caused by high service charges levied to customers and poor service delivery by bank staff which then results in customers switching to other banks. Also that brand name itself attracts customers to switch to other banks and Standard Chartered and Barclays were mentioned as one of the few commercial banks with a brand name preferred by most customers.

5.1 SUMMARY AND CONCLUSION

5.1.1 A large number of bank customers are not personally known by the bank staff and it can be concluded that bank employees does not provide a room for direct contact with their clients and are not attending to their queries. Keeping the customers for a long time can build mutual trust between the bank and its client.

5.1.2 The results of the study revealed that provision of quality services to customers, corporate image creation and maintaining customer satisfaction were all found to be strong in explaining the existing customer retention efforts in commercial banks.

5.1.3 The results were positive in explaining the impact of customer retention strategies on customer loyalty. However, some of the commercial bank customers are switching to other providers of quality services and therefore commercial banks should practise customer retention strategies so as so enhance satisfaction. Provision of quality services as retention strategy was found to attract most customers to choose a bank.

5.1.4 The indicators of customer retention strategies were advancing in technology, Total Quality Management, Service quality and maintaining customer satisfaction. Customer satisfaction and service quality were both found to be strong in explaining the impact of customer retention strategies on corporate image creation.

5.1.5 It was also found that customer retention has a bearing effect on profitability. It increases bank profitability.

5.1.6 Training staff, advancing in technology, attending to customer queries as well as provision of quality products and services were all found to be the best customer retention strategies to improve service delivery. However, in this study, it was found out that customers' and bank staff's demographic factors like age, gender, level of formal education had no influence on customer retention.

5.1.7 It was also revealed that banks are not putting effort to improve their service effectiveness by not honouring its promises. From the study it was shown that most banks are performing below standard as far as RATER Scale is concerned. The reliability of bank services is very low since one can go to the bank on weekends or after working hours only to find that the ATMs are down.

5.2 RECOMMENDATIONS

5.2.1 To Commercial banks.

1. The management of commercial banks should charge competitive interest rates, favourable transactional charges and administrative fees that will guarantee customer retention. Commercial banks should also introduce more credit products in their institutions to improve customer retention.
2. The banks should develop and implement queue management strategies through increasing the number of tellers and advising the customers on the importance of the ATMs, so that customers will not take long waiting to receive service from their banking halls. If customers wait in queues for a long time they tend to be dissatisfied and eventually leave the banks.
3. Segmenting customers is another strategy which can be used by banks to effectively meet their needs. Usually customers of high calibre don't want to wait in queues for long time, so they need a special attention since they are price insensitive for service provided.
4. Training campaigns that will install confidence in employees as need to be held since employees themselves are no longer having confidence in the banking sector and for them to be aware of the credit products and policy in place.

5.2.2 Suggestion for Future Research.

The main aim of the study was to determine the effectiveness of customer retention strategies on the performance of commercial banks in Zimbabwe. More studies need to be done on customer satisfaction, and customer relationship management and weather these exists an impact on the performance of commercial banks. Although some variables exhibited weak associations, further research is needed to examine the nature of the association between customer retention and its determinants.

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