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Assessing Customer's Retention Abilities in the Retail Banking Sector: a Case Study of Private Bank in Lusaka, Zambia

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Abstract

This study examines the effect of customer service strategies on customer retention among private banking sector in Lusaka. There may private banks in Zambia among them only few were selected for this study. Primary data was collected from bank customers using a Likert type scale questionnaire adapted from the SERVQUAL dimensions of Service Quality for banks. The sample size was of 106 respondents from private Banks. Data presentation and discussion were supported with bar graphs, pie charts and tables and simple correlation analysis using the Microsoft excel and SPSS (21.0) version.

The study established that Private banking sector does have customer retention strategies and these included "digital channels of service delivery to reduce physical banking, ATM network, innovation of new products, prompt service delivery, efficiency in handling customer complaints. The findings further revealed that customers were generally satisfied with the bank's customer service strategies in terms of the five dimensions of the SERVQUAL model, i.e. Tangibility, Reliability, Empathy, Responsiveness and Assurance. The association ranges from moderate positive to strong positive in the areas where employee based services were offered which are statistically large enough to shows that the bank's customer services are within the expectations of their customers. However there were complaints on tangibles such as frequent downtime of systems, internet banking and ATMs resulting in dissatisfaction as well as some areas of reliability and responsiveness. The study recommends that these areas of concern be addressed urgently and also that periodically customer feedback on desired service quality be sought to provide satisfaction. The banks must also train and motivate their staff to ensure that service delivery is of excellent quality. Thus the private banking sector needs to ensure that their service quality is frequently reviewed by obtaining customer feedback to identify gap areas and remedy them.

Keywords: Customer service, service quality for banks, SERVQUAL dimensions.

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Introduction

Customer retention abilities among banking sector have become one of the most difficult tasks for the private banking sector across the globe. The emergence of private banking entities have brought in lots of threatening for the sector especially to retain their customers, banks have been making lots of efforts. However, the numbers of banks have emerged in Zambia as the years moving. Right up to date there are more than 18 private fully functional banks and each of them has different retention abilities in terms of customers. reduced to 16 as at 2009, due to deterioration of the financial situation of some banks from a variety of reasons; risky lending exposures, shortages of liquidity, limitations to raise capital and competition from other non-bank financial institutions, thereby resulting in the collapse of about 9 local banks between 1994 and 2000 (Mwenda, 2002). This resulted in lasting negative perceptions from customers who preferred the international banks. Though much stricter supervision and substantial capital adequacy requirements have brought the financial sector to credence, however over the last decade, some local banks have either merged with or have been sold off to the foreign investors.

In Zambia, the foreign direct investments do hold a substantial stake in the economy but these can pull out if conditions or profitability are no longer enticing which in turn can have adverse effects on the economy thus it is crucial that local businesses are given due encouragement to operate and thrive successfully. Therefore, domestic banks are not only a lifeline for local business generation but they are also employers and corporate citizens themselves who can engage in meaningful corporate social responsibility to uplift their society.

Customer loyalty is seen as a very important lifeline of any business activity because the relationship of the customer which is built on trust, confidence and reliability is what retains that customer to the business especially in the cut throat competition that prevails today in any business. Therefore, a bank must strategize to retain its customers. Therefore customer retention is an important factor to investigate within the context of the domestic banks given the negative local bank history of the 90s, as it fights for its share of the market from strong foreign competition. Beerli, Martin and Quintana, (2004) highlight customer retention to be a key consideration as one of the various factors seen to increase income in retail banking. Alam and Khokar, (2006) admit that several strategies have been developed by banks all aimed at customer retention including novelty offerings.

Statement of the Problem

There has been tremendous growth in the Zambian banking sector from 1991 when economy was liberalized and globalisation brought in foreign direct investments to almost all the sectors in the economy causing a proliferation of retail banks (Sichinsambwe, et al., 2017). Presently most of them are foreign owned or foreign collaborated with only two local banks competing for market share that has shrunk due to the recession currently underway. The latter also face the stigma and apprehension that was created as a result of the collapse of many local banks within the 90s leaving the customers with the perception that foreign banks are more stable that local ones. Therefore the survival of Zambian banks is being threatened and the only way to remain competitive is to have the ability to retain its customers in a sector. Financial services in general, particularly banks; compete in marketplace with generally undifferentiated services and products, thereby service quality becomes a key competitive weapon (Stafford, 1996). Therefore the survival, profitability and growth of a local bank depend on the ability of the latter to offer excellent service quality that will please its customers and keep them retained.

Globally the focus on customer loyalty and retention is becoming a dominant factor in retail banking these days because competition continues to stiffen in this industry, it becomes even more compelling to understand these drivers of customer loyalty in the retail banking sector in Zambia given the present dominance of foreign banks. Locally, research on the subject is quite scanty. Sichinsambwe et al, (2017) conducted study which compared service quality in the banking sector in Kitwe only and concluded that service quality was better in foreign banks than local, while Machayi J and Ahmed EM (2016) studied Customers' Perceptions of Service Quality in Finance Bank and found no association between gender and service quality perceptions. Thus a knowledge gap still exists because none of the studies focused on effect of customer service strategies on customer retention for a wholly owned domestic bank in Zambia. This research, therefore aimed to study Investrust Bank PLC, an indigenous bank that has been in existence since 1995. The recommendations will most likely help the bank to improve areas of the service strategies based on customer feedback and help the bank in its customer retention, profitability and growth.

Objectives of the Study

The study will be guided by the following objectives:

1. To identify the customer service strategies adopted by Banks to enhance Customer retention
2. To establish customer perception about the quality of customer service strategies used by Banks
3. To assess the association between customer service quality strategies and customer retention at the Banks

Research Questions

1. What are the customer service strategies adopted by the Banks?
2. How do the customers perceive the quality of the customer service strategies that are adopted and used by the Banks?
3. Do these customer service quality strategies have an association on customer retention at the Banks?

Purpose of the Study

The purpose of this study was to investigate the customer service strategies that assist a local bank to maintain customer loyalty and retention in Zambia.

Literature Review

Grönroos (1991) defined the term of relationship marketing as “establishing relationships with customers and other parties at a profit, by mutual exchange and fulfilment of promises”. Gummesson (1994a) put forward that relationship marketing emphasizes a long-term interactive relationship between the provider and the customer, as well as long term profitability. Morgan and Hunt (1994) proposed the following: “Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges” (p. 22). Buttle (1996) proposed that relationship marketing is concerned with the development and maintenance of mutually beneficial relationships with strategically significant markets. It is obvious then that good relationship with customers will yield to loyalty as Woodruff (1997) argues that the concept of customer value suggests a strong link to customer satisfaction and the opposite is also true as Siles et al. (1994) argued that customers will be driven away by impersonal and unfriendly service.

According to Tumi (2005), in any customer service interaction, the perception of customers is crucial to one’s ability to ensure that they are satisfied beyond expectation. This helps to give customers not what is obvious but also fulfil a multitude of less obvious customer needs (Tumi 2005).

Research Methodology

This study adopted a descriptive survey approach. A descriptive study attempts to describe the state of affairs as it exists then (Kothari, 2004). The major purpose of descriptive research is description of state of affairs, as it exists at present. It is also concerned with the relationships, practices, beliefs that exists and the trends that are developing. According to Mugenda and Mugenda (1999), a descriptive study ensures that t-he observer eliminates subjectivity by administering a standard stimulus to all respondents.

Target Population

The target population of this study includes 8 employees and 14,000 retail customers in the Industrial Branch of Investrust Bank PLC in Lusaka only.

Sample Size

The sample size for this study is described below.
n=N/(1+(N*(0.01))
Whereby n = Sample Size, N = Total Population, e = Precision Level (taken as 10% at 95% confidence level)
Thus considering total population of 14000 customers and 8 staff members, the sample size is computed as follows:
n= 14000/ (1+ (14000*(0.01)) n is thus 99 customers.
n= 8/(1+(8*(0.01) n is thus 7 staff members.
The sample size is 106.

Sampling Technique

The study used a simple random sampling to select the sample size from the population. The target population is highly homogeneous and hence the questionnaires for customers were obtained at random from a size representative of the total number of customers of this branch. The entire population of the banking staff that are relevant to customer service and front management were targeted to ensure that the data collected was representative of all employees in the Bank.

Data Collection Method

Primary data was collected using two sets of questionnaires containing both open and closed ended questions and interview with the Business Manager of the bank. The questionnaires are exclusively designed for customers and employees and thus structured in accordance with research questions to ensure that it achieves the research objectives.

Data Analysis

Data were analysed with SPSS version 21.0 and excel to obtain frequencies and percentages of closed end responses. This was to identify trends that appeared from responses. Correlation calculated using Microsoft Excel was employed to measure the association between the service dimensions and customer retention. Qualitative responses were analysed using thematic survey.

Discussion of Findings

- The findings are supported by the views that reliability is a critical dimension that influences the competitiveness; and that a bank can differentiate itself from competitors by providing high quality reliable services.
- The Bank uses market segmentation strategies to improve customer service and satisfaction. The bank separates its market broadly as personal, business and corporate and in terms of rural or urban.

- The study discovered that the banks invest in technology which gave customers an opportunity to access their bank accounts through mobile phones and computers via the internet. This created a lot of convenience for customers as they did not need to physically visit the bank's physical branch offices to transact. The study discovered that, there is need to know the level of service customers expect. The bank should run surveys. Once what customers expect is known the position to deliver is solid.
- The banks endeavour to offer low costs on services than others. The bank also offers its customers reasonable exchange rates for their foreign exchange transactions in order to increase the customer retention, as it also promptly responds to changes in the base lending rates upon revision of these by Bank of Zambia thus it can be said that private banks in Lusaka has effective customer retention strategies on paper, whether they translate into the desired results are revealed in the findings to the second objective of the study.
- The study showed that total percentage of positive perceptions from customers was 76%. This was more than the combined total of disagreement which stood at 13%. The correlation result shows that the bank's competitive customer service strategies have been found to have a positive impact on customer retention. All the 5 dimensions of service quality have recorded a positive correlation coefficient of over 0. 52 to 0.68 which is within the moderate positive range to customer retention.
- The study also discovered that the bank staff suggested the following information on what strategies can be employed to enhance customer satisfaction and retention. Set up high quality internet service system to speed up service delivery, conduct a customer survey in order to improve customer experience, train and motivate staff and ATMs must be functioning efficiently
- Thus the findings are concluded by stating that from the entire report, it is clearly evident that customer service strategies though effective at the bank where services are staff oriented as the staff have proved to be quite responsive and empathic, however the services that require the use of technology such as internet, ATM, systems encounter challenges emanating from the quality if technology thus it needs to be upgraded urgently as this will eventually reduce the number of customers to the banking hall and make customer service faster and efficient thereby enhance retention.

Conclusion and Recommendations

Conclusion

Based on the research findings, it is concluded that using the methodology and theories employed in this study, it has been established that that effective customer retention strategies can create impact on customer retention. From the data collected the customers of Investrust Bank PLC the result and the analyses shows the bank has created a safe and secure banking perception from the customers and also satisfies its customer by the service quality it provides. The study therefore finds a positive association of quality strategies over the customer retention through the analysis. The empirical findings do suggest that 67% of customers from the sample size are satisfied with the services they are provided and are ready to recommend the bank to others. However, 23% of the respondents are not satisfied and would like to exit. The latter section is representative of the entire customer population that might not be happy with the existing services and thus should be seriously considered.

This study has shown that effective customer relationship management that is to say, the relationship with staff can differentiate a bank from the others even though some areas of service quality are hindered by technological and other tangible challenges. The customers at the private banks find it hard to switch from their bank because of the comfort that they experience at this bank given the physical location, relationship with the staff and the customer service strategies.

Recommendations

The study has found that though the banks have formulated practical service quality strategies, however there are challenges that have caused impediments to extending benefits to their customers.

The Private Banks should urgently address the Tangibility dimension of service quality in terms of internet banking, faulty ATM systems, delays in issuance of banking instruments like cards, cheque books etc. This is causing customer dissatisfaction and movements to other banks.

Private Banks should review reliability dimension to remedy areas of improvement especially in-terms of slow service delivery like long queues in the bank during peak times. More tellers must be employed to ease the congestion.

Private Banks should also review its loan processing time and criteria, financial inclusion is a catalyst to national growth and also the profitability of the banks since that is their core business activity. Hence as a Zambian bank, it needs to open its doors to local upcoming businesses to help them achieve growth.

Private Banks should further improve its overall service operations to match up with customer expectation by getting feedback from their customers and implement these in service quality because the correlation shows a positive relationship to retention, and hence shows that improvement to service quality will enhance retention.

Private Banks should also periodically train and reward staff especially Front liners at the bank, regular guidance like workshops, training and appreciation of commitment leads to motivation and retention of employees which can improve their competency on customer service and effective handling of complaints.

It is recommended that the Private Banks should consider employing more usages of Electronic medium to ensure satisfaction level of customers is maintained. Since we live with COVID – 19, the E-Platform will be highly appreciated by the customers.

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