INFLUENCE OF COMMERCIAL BANKS' CUSTOMER RELATIONSHIP MARKETING (CRM) STRATEGY ON GROWTH OF MSES IN KENYA

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INFLUENCE OF COMMERCIAL BANKS' CUSTOMER RELATIONSHIP MARKETING (CRM) STRATEGY ON GROWTH OF MSES IN KENYA

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Abstract

Purpose: The main purpose of this study was to establish the influence of commercial banks' customer relationship marketing (CRM) strategy on growth of MSEs in Kenya.

Methodology: The study employed a descriptive survey design with a population of 2,519,457 MSEs in Kenya and the chief credit officers from the 44 commercial banks in Kenya. The bank chief credit officers and MSEs owners were targeted for information by this study because they were likely to be the decision makers. The chief credit officers who were sampled from the headquarters of the commercial banks were actively involved in making lending decisions. The researcher used purposive sampling to select respondents. The sample size which was purposively selected was comprised of 352 respondents. The study will use questionnaires to collect data from the field. Both quantitative and qualitative data gathered will be coded and analyzed using Statistical Package for Social Sciences (SPSS) computer software. Descriptive statistics was used to analyze the data in frequency distributions and percentages which were presented in tables and figures. Inferential statistics were used to analyze qualitative data.

Results: The study found out that commercial banks' customer relationship marketing (CRM) strategy have a positive and significant effect on MSEs Growth.

Unique contribution to practice and policy: It was recommended that commercial banks should improve on customer relationship management to enhance the growth of MSEs. This study demonstrated that keeping banking relationships can be beneficial to firms, in so far as contact between the commercial banks and MSE can improve the availability of funds and lower their costs.

Key words: Commercial banks' customer relationship marketing (CRM), growth of MSEs

1.0 INTRODUCTION

1.1 Background and Research Gap

Banks consider MSE lending market to be large, not saturated and with a very positive outlook. A number of obstacles are, however, constraining further banks' engagement with the MSE segment, including MSE-related factors such as the lack of adequate information and collateral as well as their largely family-owned structures. Macroeconomic factors, business regulation, the legal and contractual environment, the lack of a more proactive government attitude towards the segment, some areas of prudential regulation are some bank-specific factors are also perceived to negatively affect the MSE lending market in East Africa. Nonetheless, banks have adapted to their environment and developed mechanism to cope with it through innovation and differentiation (Beck *et al.,* 2012).

A number of factors affect the growth of African MSEs, including the business environment and the quality of the labour force. However, a crucial element in the development of the MSE segment is access to finance, particularly to bank financing, given the relative importance of the banking sector across the continent. African MSEs are more financially constrained than in any other developing region (Biswas, 2008). Only 20 percent of MSEs in Sub-Saharan Africa have a line of credit from a financial institution compared, for example, with 44 percent in Latin America and Caribbean, and only 9 percent of their investments are funded by banks versus 23 percent in Eastern Europe and Central Asia. The study found that the MSE is a strategic priority for the banks in the region. MSEs are considered a profitable business prospect and provide an important opportunity for cross-selling (Calice, 2012).

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In Kenya, Micro and Small Enterprises (MSEs) generally face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. Lack of access to credit is almost universally indicated as a key problem for MSEs. Credit constraints operate in a variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance (World Economic Forum, 2014).

There are various other financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees, lack of collateral and long time lending procedures. Financial constraint remains a major challenge facing MSEs in Kenya (Wanjohi and Mugure, 2008). Small-scale enterprises play a major role in facilitating economic growth in Kenyan economy. The greatest hindrance to their active participation is the access to

affordable credit and at reasonable terms. Republic of Kenya (RoK) (2012) focused on the role of micro and small enterprises and stressed the potential of the MSE sector to function as a catalyst of growth for the country's development. In the past, the Kenyan economy has been characterised by slow growth. This has in return led to the introduction of Structural Adjustment Programme (SAP), an imposition on Kenya by the International Monetary Fund (IMF) and the World Bank (WB). The main objective of SAP is to bring the government budget down.

According to Cowan *et al.* (2007), there were about 2.4 million MMSEs in Kenya of which 88 percent were non-registered. Out of the non-registered group, only 23 percent had bank accounts, and only 10 percent had ever received credit from a formal source. Less than 20 per cent of MSEs in Kenya had ever received credit from formal financial institutions. Access was limited due to challenges in assessing MSE risk in a cost-effective manner. Collateral serves as important incentive acting upon borrowers to avoid defaulting on loans and a means by which borrowers can signal their credit worthiness to lenders (Lehman & Neuberger, 2009). In Kenya, some banks do not accept collateral from some MSEs in rural areas. Even for urban-based MSEs, this condition is a severe constraint. Besides, MSEs lack collateral required by commercial banks (Ochieng, 2015).

1.2 Statement of the Problem

Credit and capital have been found to be the greatest perceived needs of small businesses (Liedholm & Mead, 2009). They require working capital to survive and buy equipment. Various lending institutions like K-Rep, Faulu-kenya and Jamii Bora Bank have introduced products that enhance lending to MSEs. Despite the loan facilities offered by these institutions, the MSEs Performance, growth and existence still remains unknown. Studies on micro-enterprises suggest that most of them do not grow, although approximately 40% does actually grow (Baud & Bruijne, 2013). Micro and small enterprises have a high mortality rate. Many are started every year but very few see their third birthday (Ngugi, 2012). Micro and small enterprises do not grow at the expected rate to become medium enterprises hence the missing middle phenomena (Ngugi, 2013).

Reports from Kenya Bankers Association show that 80% of lending by banks is to corporate and government clients (KBA, 2014). Worked out, this leaves only about 20% of lending by banks shared between individual borrowers and the MSEs. Yet up to 40% of the country's GDP is attributed to the MSEs. Could this trend be reversed by the commercial banks lending strategies? This was the subject of this study.

Despite abundant literature on MSEs Loan, there still remains a gap in literature on the effect of the loan to the micro and small enterprises. Kombo, (2010) has researched on challenges faced by physically impaired people in access of services offered by KCB. In a study on utilization of micro finance by small entrepreneurs in Kenya, (Ndung'u, 2010) highlights how the MSEs have utilized credit extended to them. There is no research that has been done on commercial banks lending strategies and thus exist a research gap. This study was therefore aimed at assessing the influence of commercial banks' customer relationship marketing (CRM) strategy on growth of MSEs in Kenya

1.3 Objective of the Study

The objective of this study was to examine the influence of commercial banks' customer relationship marketing (CRM) strategy on growth of MSEs in Kenya.

2.0 METHODOLOGY OF THE STUDY

This study employed descriptive survey research design. Borg & Gall (2013) observes that descriptive design is more rigid, helps to well understand the problem, its tests specific hypotheses, is formal and structured, is best with large representative samples and provides a snapshot of the market environment. The study explored the strategic influence of commercial banks lending to the growth of MSEs in Kenya. The study population comprised owner-managers of all MSEs in the country estimated to be 2,571,293 [The Micro and Small Enterprises Authority (MSEA), 2013] and chief credit officers from the 44 commercial banks operating in the country (CBK, 2013). The bank chief credit officers and MSEs owners were targeted for information by this study because they were likely to be the decision makers. The chief credit officers who were sampled from the headquarters of the commercial banks were actively involved in making lending decisions. The researcher used purposive sampling to select respondents. The sample size which was stratified randomly selected was comprised of 352 respondents. Purposive sampling was used to select the chief credit officers from the headquarters of the 44 commercial banks in the country. The study used a sample of 6 commercial banks that control 70% of MSE lending (CBK, 2013). A pilot study was conducted in order to establish the validity and reliability of data collection instruments. Data collected from the questionnaires was prepared and converted from responses to quantitative format for ease in analysis using statistical package for social sciences (SPSS).The statistics generated was descriptive statistics and inferential statistics. The specific descriptive statistics included percentages and frequencies while the specific inferential statistics included a regression. A simple linear regression model was used to test the significance of the influence of the independent variable on the dependent variable. The results were presented in form of tables and charts.

3.0 RESULTS OF THE STUDY

3.1 Response rate

The return rate provides a profile of respondents who participated in this study. A total of three hundred and fifty two (352) questionnaires were given to the respondents (MSEs owners and credit officers). A total of three hundred and thirty seven (337) questionnaires were returned giving a return rate of 95.73% as shown in table 1.

Table 1: Response rate

Response	Returned	Percent (%)
MSE s' owners	331	95.66
Credit officers	6	100
Total	**337**	**95.73**

The average return rate was 95.73% which was considered appropriate for the research findings of the study.

3.2 Reliability

The reliability of an instrument refers to its ability to produce consistent and stable measurements. The most common reliability coefficient is Cronbach's alpha which estimates

internal consistency by determining how all items on a test relate to all other items and to the total test- internal coherence of data. The reliability is expressed as a coefficient between 0.00 and 1.00. The higher the coefficient, the more reliable is the test. The cronbach alpha was calculated in a bid to measure the reliability of the questionnaire. Results are presented in table 2.

Table 2: Reliability coefficient

Variable	Cronbach's Alpha	Comment
Customer Relationship management	0.706	Accepted

Table 2 shows the reliability results. Product accessibility was reliable since the cronbach alpha was above 0.7 which was used as a cut-off of reliability for the study. Therefore the internal consistency reliability of the measure was excellent. This indicates that the data was reliable since an alpha coefficient higher than 0.70 signifies that the gathered data has a relatively high internal consistency and could be generalized to reflect the respondents opinions on the study problem.

3.3 Demographics

The study also sought to establish the gender of the respondents. This aimed at establishing whether the view of all gender was accommodated in the study. the respondents for this study were predominantly male MSEs owners , Out of 331 respondents, 55.6% were male. Further, the credit officers were requested to indicate their gender. The credit officers for this study were equal in number (50%). shows the level of education of the MSEs owners. Majority of the MSEs owners 174 (52.6%) had a college level as their highest level of education, 122(36.9%) had university level as their highest level while only 31 (9.4%) had secondary level to be the highest level of education. 50% of the credit officers had a college level as their highest level of education, while another 50% had university level as their highest level. The respondents were requested to indicate the length of business operation. Results shows that majority (44.7%) of businesses had been in operation for between 1-3 years, 28.4% had been operation for 3 to 5 years, and 19.3% had been operation for less than one year while 7.6% had been in operation for 5 to 10 years. The respondents were requested to indicate on the number of employees in their enterprises. Results indicated that 78.1% of the MSEs had between 1-5 employees, 17.2% had between 6-10 employees, 3.6% had 11-50 employees. The credit officers were requested to indicate on the number of years they had worked in the bank. Results revealed that 50% of the respondents who were the majority had worked for over 5 years, 33% had worked for 3 to 5 years while 16.7% had worked for less than 2 years. This implies that majority of the respondents had worked in the organization for a long period

3.4 Descriptive Statistics

The objective of the study was to determine the influence of commercial banks' customer relationship marketing (CRM) on growth of MSEs in Kenya. The respondents were requested to indicate their level of agreement on the statements on customer relationship management. Results are presented in Table 3.

Table 3: Customer relationship management

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Deviation
The bank quickly rectify problems with customers	4.20%	0.00%	12.40%	77.60%	5.70%	3.81	0.73
The bank employees do follow-ups to find out if I need some assistance.	4.20%	0.00%	6.30%	75.80%	13.60%	3.95	0.76
The bank solve all my financial problems.	26.00%	32.90%	32.30%	8.80%	0.00%	2.24	0.94
They change ways of dealing with me over time.	23.90%	34.40%	32.60%	9.10%	0.00%	2.27	0.93
The bank appreciates my deals with them.	2.70%	1.20%	1.50%	74.30%	20.20%	4.08	0.71
Average						**3.27**	**0.81**

Results in table 3 revealed that majority of the respondents who were 83.3% (77.6%+ 5.70%) agreed that the bank quickly rectify problems with customers. 89.4% agreed that the bank employees do follow-ups to find out if they need some assistance. 58.9% disagreed that the bank solve all my financial problems. The results also revealed that majority of the respondents who were 58.3% disagreed that they change ways of dealing with them over time while 94.5% also disagreed that the bank appreciates their deals with them.

Credit officers were requested to indicate their level of agreement on the statements on customer relationship management-customer commitment, customer loyalty and empathy. Results are presented in Table 4

Table 4: Customer relationship management

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dev
Customer commitment The MSES are willing to invest more in our products	0.00%	0.00%	0.00%	50.00%	50.00%	4.50	0.55
Majority of the MSEs are desire to remain as our customers since we take care of their needs	0.00%	0.00%	0.00%	16.70%	83.30%	4.83	0.41
There is a presence of reciprocity in our SME-bank relationship	0.00%	0.00%	0.00%	50.00%	50.00%	4.50	0.55
Average						**4.61**	**0.50**
Customer Loyalty Majority of MSEs intend to continue doing business with our bank over the next few years	0.00%	0.00%	0.00%	0.00%	100.00%	5.00	0.00
As long as the present service continues, majority of the MSEs are not willing to switch to other service providers	0.00%	0.00%	0.00%	0.00%	100.00%	5.00	0.00
Majority of MSES are very likely to recommend this bank to a friend.	0.00%	0.00%	0.00%	0.00%	100.00%	5.00	0.00
Average						**5.00**	**0.00**
Empathy Our employees give personal attention to the clients	0.00%	0.00%	0.00%	0.00%	100.00%	5.00	0.00
Our bank has best interests in promoting MSEs at heart.	0.00%	0.00%	0.00%	0.00%	100.00%	5.00	0.00
Our bank has operating hours convenient to all their customers.	0.00%	33.30%	0.00%	0.00%	66.70%	4.00	1.55
Average						**4.67**	**0.52**

Results in Table 4 showed that majority if the respondents agreed with majority of the statements under customer commitment, customer loyalty and empathy as indicated by the mean scores of 4.61, 5.00 and 4.67 respectively. Ozkan & Ozkan (2011) maintain that building relationships with financial institutions improves firms' ability to access external financing. This suggests that firms with a higher proportion of bank debt will be able to access external financing more easily. Establishing MFI relationships with MSEs reduces information asymmetry and agency problems, since valuable information about MSE quality can be disclosed. Thus, establishing stable links with financial institutions can improve both the availability and the conditions of financing. Various works have empirically demonstrated that keeping banking relationships can be beneficial to firms, insofar as contact between the MFI and MSE can improve the availability of funds and lower their costs.

3.5 Regression Analysis

The results presented in table 5 present the fitness of model used of the regression model in explaining the study phenomena. Customer relationship management explained 4.8% of growth in MSEs.

Table 5: Model Fitness

Indicator	Coefficient
R	0.218
R Square	**0.048**
Adjusted R Square	0.045
Std. Error of the Estimate	3.55844

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant

Table 6: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	208.35	1	208.35	16.454	**.000**
Residual	4165.959	329	12.662		
Total	4374.309	330			

Table 6 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that the customer relationship management is good predictors of MSEs' growth. This was supported by an F statistic of 16.454 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level.

Regression of coefficients results is shown in table 7

Table 7: Regression of Coefficients

Variable	B	Std. Error	t	sig
(Constant)	3.963	0.793	5	0.000
Customer relationship management	0.998	0.246	4.056	**0.000**

Results in table 7 shows that customer relationship management have a positive and significant effect on the growth of MSEs (r=0.998, p=0.000). This means that a unitary increase in Customer relationship management will lead to a growth of MSEs by 0.998 units. Ozkan & Ozkan (2011) maintain that building relationships with financial institutions improves firms' ability to access external financing. This suggests that firms with a higher proportion of bank debt will be able to access external financing more easily. Establishing MFI relationships with MSEs reduces information asymmetry and agency problems, since valuable information about MSE quality can be disclosed. Thus, establishing stable links with financial institutions can improve both the availability and the conditions of financing.

The specific model was;

MSE growth =*3.963+0.998X*

Where X is Customer relationship management

The hypothesis was tested by using simple linear regression (table 7 above). The acceptance/rejection criteria was that, if the p value is greater than 0.05, the Ho is not rejected but if it's less than 0.05, the Ho fails to be accepted. The null hypothesis was that there is no significant relationship between Customer relationship management and growth of MSEs in Kenya. Results in Table 7 show that the p-value was 0.000<0.05. This indicated that the null hypothesis was rejected hence there is a significant relationship between Customer relationship management and growth of MSEs in Kenya.

4.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

4.1 Conclusions

The study concluded that that a good relationship between MSEs and banks helps them to easily access finances and information. Banks quickly rectify problems with customers and that the bank employees do follow-ups to find out if their customers which in this case are the MSEs need   some assistance. Customer commitment, loyalty and empathy are key items that boast a good relationship between the banks and the MSEs. From the regression results the study concluded that commercial banks customer relationship management has a positive and significant effect on the growth of MSEs.

4.2 Recommendations

The study recommended that commercial banks should improve on customer relationship management to enhance the growth of MSEs. This study demonstrated that keeping banking relationships can be beneficial to firms, in so far as contact between the commercial banks and MSE can improve the availability of funds and lower their costs.

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