

# CUSTOMER LOYALTY PRACTICE AND MARKETING PERFORMANCE OF COMMERCIAL BANKS IN KENYA

Philip Kipngetich Ngeno<sup>1</sup>, Dr. James Mbugua<sup>2</sup>, Dr. Lydia Langat<sup>3</sup>

University of Kabianga, Kenya.

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**Abstract:** Commercial banks in Kenya “are experiencing unprecedented challenges such as escalating competition from industry players as well as companies offering banking services such as Fintechs, telecommunication players among others. These challenges coupled with increasing customer demands and technological advancements have resulted in commercial banks losing potential business opportunities due to customers switching from banks to alternative service providers.” The study sought to evaluate the relationship between customer loyalty practice and marketing performance. The study adopted correlational research design and pragmatism research philosophy. “The study targeted all the 38 commercial banks in Kenya where 152 respondents who were; bank relationship managers, marketing managers, treasury officer and customer service managers were targeted to respond to the study. Census sampling techniques was used since the target population was small. The study used primary data which was collected using structured questionnaires and was administered through drop and pick later. Data analysis was done using both descriptive and inferential statistics as per the study objectives with the aid of SPSS version 27 software. Data was presented using figures, graphs and tables. The study findings revealed that commercial bank practice customer loyalty and that they understand their customer’s needs and wants in paying key attention to price, promotion, service and products; customers recognize their products and services based on past buying experience and attitude but their dissatisfied customers complained to banks competitor. The findings also showed that customers experience the same quality of banking service through bank retailers. The study recommendations that commercial banks should direct their marketing efforts toward satisfying current customers to retain them and foster long-term relationships. They also need to continuously improve on customer services offered through enhancements of services and products offered by bank retailers guided by market demand. By consistently analyzing customer feedback on product usage, banks should redesign their services and products to suit dynamic customer requirements.

**Keywords:** Customer Relationship Management Practices, Customer loyalty Practice, Marketing performance.

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## 1. INTRODUCTION

Customer loyalty is the measure of repeat sales and referrals. It is based on how often a customer purchases from one particular company versus others that may be similar or better suited to their needs. Loyal customers are more likely to be satisfied with their purchase and recommend the product to others. Thus, it is important because it provides a consistent source of revenue for the company, (CRM Simplified, 2022). Khadka and Maharjan (2017) define customer loyalty as a commitment to repurchase a preferred service in the future, despite competing influences, and note that loyalty is essential for achieving consistent financial outcomes.

According to Tung'a (2013), "marketing performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. To maintain lifetime relationships with customers, commercial banks need to adopt CRM practices moderated by quality management system this will enable them to enhance quality service delivery and hence customer satisfaction (Chan 2013).

According to "Kumar (2015) on Evolution of Marketing as a Discipline: what has happened and what to look out for over the past decade, many firms have implemented CRM and a growing number of companies are developing elaborate CRM systems and making creative use of sales force automation (SFA), data ware- housing, 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.

CRM systems play a central role in enabling financial institutions to build long-term customer relationships. According to Reif (2019), such systems integrate and consolidate customer data from various touchpoints—such as internet platforms, email, call centers, and face-to-face interactions—thereby enabling consistent, enterprise-wide customer service. Frow, Payne, Wilkinson, and Young (2011) emphasize that CRM facilitates seamless coordination between front and back offices, empowering banks to better target and serve high-value customers.

The Kenyan banking sector has become highly competitive, compelling banks to prioritize CRM initiatives to improve customer experience and performance. According to the Kenya Banking Survey (2019), the average customer retention index in the industry stood at approximately 52%, indicating a moderate level of customer loyalty. The Global Banking Survey (2023) further notes that rapid changes in customer expectations have led to increased switching among service providers in Kenya, highlighting the need for effective customer retention strategies.

A survey by FinAccess (2016) revealed that 35% of Kenyan customers used three or more financial service providers, and commercial banks experienced higher levels of account closure and dormancy compared to other providers. These statistics indicate declining customer loyalty and underscore the necessity for commercial banks to adopt both customer loyalty practices to maintain and grow their customer base. Li and Green (2012) suggest that effective loyalty practices are achieved through a well-balanced marketing mix—product, price, place, and promotion—supported by a compelling value proposition.

### 1.1 Statement of the Problem

The *World Retail Banking Online Survey* (2022) revealed that 58% of customers were willing to leave their banks due to poor service quality, and 59% sought a more convenient banking experience, indicating a growing dissatisfaction with customer loyalty outcomes in the banking sector. These challenges are further compounded by rising customer expectations, digital disruption, and increased competition from non-traditional financial service providers. This study seeks to address these gaps by establishing the relationship between customer loyalty practice and marketing performance of Commercial banks in Kenya

## 2. LITERATURE REVIEW

Belás and Gabčová (2016) in their study noted that customer loyalty is an important factor in customer satisfaction. The impact of the satisfaction in loyalty has been the most popular subject in study of the marketing theory. Therefore, several studies have proved that satisfaction and loyalty have the direct connection between one another. As satisfied customers are loyal and dissatisfied customers are a vendor. Finding a loyal customer is not accessible even the customers seem to be satisfied with the products and the services. In fact, the behavior and attitude of the customers towards the particular goods and services matters the most. If the behavior of the customers is positive to the service holder, then those customers are said as a loyal customer.

Išoraitė (2019), studied consumer loyalty programs in retail companies in Lithuania revealed that customer loyalty is the highest valuable result of marketing efforts, thus the development of customer loyalty has become an important focus on marketing strategy. The customer loyalty is winning the confidence of the customer in favor of an organization so that the relationship becomes a win-win situation for both the organization as well as the customer. Researchers affirmed the benefits of customer loyalty to provider inclusive lower customer price sensitivity, reduced expenditure on attracting new customers and improved organization's profitability and noted that loyal customers pass on favorable word-of-mouth comments about a company or product.

Thanabordeekij and Syers (2020), expressed that loyalty is an indication that the consumer that always become the customer, that always have the strength and positive perception to the company. The loyalty of customer is showed, by giving recommendation to other costumers and keeping the consumption of the product continuously. The loyalty of customer is a manifest and the follow up of customer satisfaction after using the facilities and using the services that is given by the company, also to keep becoming the company's customer.

### 3. RESEARCH DESIGN

The study adopted pragmatism research philosophy which is a mixed method since it employs both qualitative and quantitative analysis and that it produces data with a high level of validity, which is reliable and honest (Collins, 2010). This study adopted a correlational research design to investigate customer relationship management practices, quality management system, and marketing performance of commercial banks in Kenya. The design sought to answer questions like what, who, and how of a phenomenon in a study (Ogula, 2015). This was to gain insights on the current phenomena in relation to situations, processes and relationships. The design enabled the researcher to establish facts; examine relationships; describe, analyze and interpret data accordingly, (Siedlecki, 2020). Waters (2017) demonstrated that a correlation study is a quantitative method of research in which two or more quantitative variables from the same group of participants, are used to determine existence of a relationship (or co variation) between the two variables.

According to the CBK, Commercial Banks can be stratified into large, medium, and small on the basis of the size of their market share. The target population for this study was the entire 38 banks in Kenya as per the Central Bank of Kenya, (2022). The study targeted staff members working in key departments of commercial banks in Kenya, including marketing, relationship management, customer service, and treasury. These employees are directly involved in the implementation and monitoring of Customer Relationship Management (CRM) practices, Quality Management Systems (QMS), and marketing performance strategies. Therefore, they were considered the most appropriate respondents to provide insights into the internal practices, systems, and performance outcomes of their respective institutions.

Purposive sampling technique was used to select relationship managers, marketing managers, customer service managers and treasury officer of each commercial bank as they are conversant with the relationship between customer relationship management and marketing performance of commercial banks in Kenya. Given the small size of the target population which is 152 respondents, a census was used in selecting all bank relationship managers, marketing managers, customer service managers and treasury officer. This sample was suitable since it helped in explaining the effect of customer relationship management on marketing performance of commercial banks in Kenya. Mugenda and Mugenda (2013) recommend a sample size of between 10%-50% of the entire population.

The study used questionnaire to collect primary data and was self-administered by the researcher. According to Kinyanjui (2014), self-administered structured questionnaire was used to collect both quantitative and qualitative strands. The study involved both the qualitative and quantitative aspects of both independent and dependent variables and therefore, self-administered structured questionnaire was appropriate for this study.

The researcher observed ethical standards before, during and after data collection. The researcher explained the possible benefits of the research to the respondents so that they could make an informed decision before they filled the questionnaire. 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 maintained by complying fully with Kenya Data Protection Act (2019).

### 4. FINDINGS AND DISCUSSION

The study sought to evaluate the relationship between customer loyalty practice and marketing performance of Commercial banks in Kenya. Responses were given on a five-point Likert scale, where 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5=Strongly Agree. A mean of between 0.0 and 2.5 meant disagreed while a mean of between 2.6 and 5.0 meant agreed. The results are as presented in Table 1.

**Table 1: Customer Loyalty Practice and Marketing Performance**

Statement on Customer Loyalty Practice	Disagreed (1 & 2)	Undecided (3)	Agreed (4 & 5)	Mean	SD	Skewness	Kurtosis
Our bank understands customers' needs and pays key attention to price, promotion, service, and products to gain and retain customers.	21 (16.9%)	16 (12.9%)	87 (70.2%)	3.91	1.13	-1.02	0.33
Our customers recognize that our products and services are better than alternatives.	10 (8.1%)	3 (2.4%)	111 (89.5%)	4.35	0.76	-1.38	2.24
Our bank creates a comfortable environment with customers, leading to effective growth and profit.	11 (8.9%)	7 (5.6%)	108 (85.5%)	4.18	0.85	-1.44	2.92
Our bank considers customers' concerns based on past buying experience and attitude.	10 (8.1%)	5 (4.0%)	109 (87.9%)	4.31	0.84	-1.68	3.75
Customers are not satisfied and have expressed complaints to competitors.	20 (16.2%)	9 (7.3%)	99 (79.8%)	4.08	1.04	-1.39	1.65
Customers experience the same quality of banking service through our retailers.	45 (36.3%)	12 (9.7%)	77 (54.0%)	3.23	1.51	-0.38	-1.37
Our bank's annual goal is to offer better services and products compared to other banks.	20 (16.2%)	10 (8.1%)	94 (75.7%)	3.91	1.24	-1.10	0.19
Our product quality, features, and brand characteristics are guided by market demand.	15 (12.2%)	7 (5.6%)	102 (82.2%)	4.28	1.06	-1.69	2.32
Our banking products are attractive and varied, satisfying a variety of customers.	8 (6.4%)	8 (6.5%)	108 (87.1%)	4.38	0.76	-1.22	1.40
<b>Overall</b>				<b>4.07</b>	<b>1.02</b>	<b>-1.26</b>	<b>1.49</b>

The findings reveals that commercial banks understand their customer's needs and wants hence pays key attention to price, promotion, service and products in order to gain and retain its customers as postulated by majority of respondents who were 87 (70.2%), while those who disagreed were 21 (16.9%) and undecided were 16 (12.9%). Commercial banks customers recognize that the products and services offered were better than other alternatives and form as agreed by 111 (89.5%) respondents, those who disagreed were 10 (8.1%) while those who were undecided were 3 (2.4%). Commercial banks create a comfort environment with customer and this had led to bank growing effectively and making profit as attested by majority of respondents who were 108 (85.5%), while those who disagreed were 11 (8.9%) and those who were undecided were 7 (5.6%).

Majority of respondents who were 109 (87.9%) agreed that commercial bank considers customers' concern based on past buying experience and attitude, while respondents who disagreed were 10 (8.1%) and those who were undecided were 5 (4.0%). Commercial banks customers who were not satisfied had expressed their complaints to banks competitors as agreed by 99 (79.8%) respondents, disagreed by 20 (16.2%) respondents and undecided respondents were 9 (7.3%). Commercial banks customers experience the same quality of banking service through banks retailers as agreed by 77 (54.0%) while those who disagreed were 45 (36.3%) while those who were undecided were 12 (9.7%) respondents.

Commercial bank's annual goal was to offer better services and products compared to other banks as agreed by 94 (75.7%) respondents and disagreed by 20 (16.2%) respondents while those who were undecided were 10 (8.1%). Commercial banks product quality and features as well as brand product characteristics were guided by market demand. This is as per the majority of respondents who were 102 (82.2%) while those who disagreed were 15 (12.2%) respondents and 7 (5.6%) respondents were undecided. Commercial banking products were attractive and of different variety hence satisfy a variety of customers as agreed by 108 (87.1%) respondents while undecided respondents were 8 (6.5%) while those who disagreed were 8 (6.4%) respondents.

The mean findings of 3.9076 and a standard deviation of 1.13490 reveals that commercial bank understands their customer's needs and wants hence pays key attention to price, promotion, service and products in order to gain and retain its customers. According to Khadka and Maharjan (2017) loyalty is commitment to rebuild and re-patronize a preferred product or service despite situational influences and marketing efforts having the potential to cause switching behaviors. Thus, commercial banks understood their customers since they paid attention to ensuring that they offer product that meets the needs of their customers.

Commercial bank customers recognize that their products and services were better than other alternatives and form for it had a mean of 4.3500 and a standard deviation of 0.76312. This show that commercial banks focused on value of its product and services and it's interested to fulfill the desire or build the relationship with customers as guided by Durga (2018). Commercial bank creates a comfort environment with customer and this had led to bank growing effectively and making profit for it had a mean of 4.1750 and a standard deviation of 0.84677. This shows that a relationship with a customer is important and this requires that company work in a broader context that extends beyond itself by being a world class (Chattopadhyay, 2019).

The mean of 4.3083 and a standard deviation of 0.83812 implied that commercial bank considers customers' concern based on past buying experience and attitude. According to Ojiaku eta al., (2023), many company efforts aim solely at increasing the percentage of repeat purchases among current customers which commercial banks actualized by offering good customer experience. Commercial banks customers were not satisfied and had expressed their complaints to banks competitor since it had a mean of 4.0833 and a standard deviation of 1.04184. The findings conflict Isoraitè, (2019) study findings on consumer loyalty programs in retail companies in Lithuania which revealed that customer loyalty is the highest valuable result of marketing efforts, thus implies that commercial banks had not done enough to meet the needs of their customers who were not satisfied had made complaints on the same.

Commercial bank customers experience the same quality of banking service through retailers for it had a mean of 3.2250 and a standard deviation of 1.51443. The findings agree with McCain, and John (2015), who reported that the development of consumer loyalty follows the cognitive–affective–conation–action pattern. This means that commercial bank services offered at the retail shops are of same quality with those offered at the main banks. The mean of 3.9083 and a standard deviation of banks 1.23667 revealed that commercial bank's annual goal was to offer better services and products compared to another banks and that the product quality and features as well as brand product characteristics were guided by market demand as revealed by a mean of 4.2750 and a standard deviation of 1.06086. Thus, were attractive and of different variety hence satisfied a variety of customers for it had a mean of 4.3750 and a standard deviation of 0.75662.

Thanabordeekij and Syers (2020), expressed that a consumer that become the customer, have the strength and positive perception to the company and giving recommendation to other customers to use the product continuously. Commercial banks should focus on personalization communication and community building by tailoring services offered and communication to individual customer and providing rates that are appealing and flexible, thus ensuring customers are always satisfied.

Having a continuous communication to customer on matters affecting them creates personalize customer relationship and this tends to pull all their efforts in boosting their savings and hence improved performance. Payment of high interest on deposits and rebates to customer, provision of CSR to community and providing education and training on emerging issues in the market are loyalty program which are rewards to customer based on their patronage to the banks.

## 5. CONCLUSIONS AND RECOMMENDATIONS

The study concludes that commercial bank practice customer loyalty and that they understand their customer's needs and wants in paying key attention to price, promotion, service and products; customers recognize their products and services based on past buying experience and attitude but their dissatisfied customers complained to banks competitor. Their customers experience the same quality of banking service through bank retailers and annually better these services and products as guided by market demand.

The study recommends that commercial banks should direct their marketing efforts toward satisfying current customers to retain them and foster long-term relationships. They also need to continuously improve on customer services offered through enhancements of services and products offered by bank retailers guided by market demand. By consistently analyzing customer feedback on product usage, banks should redesign their services and products to suit dynamic customer requirements.

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