A MICRO ECONOMIC ANALYSIS OF
CUSTOMER RETENTION INDICATORS

A Case Study of Standard Chartered Bank Dar Es Salaam, Tanzania

By

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CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by Kampala International University the research proposal entitled **"A Micro-Economic Analysis of Customer Retention Indicators – A Case Study of Standard Chartered Bank Dar Es Salaam"** in partial fulfillment of the requirements for the award of the Bachelor Degree in Business Administration – BBA.

Mr. Duncan Matundura

(Supervisor)

Date: 31st OCT 2011

DECLERATION AND COPYRIGHT

I, **Fred Lyombo**, do declare that this research paper is my own original work and that it has not been presented for a similar degree at any university.

Signature: _Lyombo_____

DEDICATION

This dissertation is dedicated to the people that matter most to me, my parents – Silvius and Rose Lyombo, for their enduring support and guidance throughout my academic career.

ACKNOWLEDGEMENT

The task of completing this research does not go without support and guidance from others. It is in this regard that I extend my gratitude, to begin with, in general, to all those who had a role to play in the materialization of this report, for it is technically impossible to note them all in this document.

I am deeply indebted to take note of my supervisor, **Mr. Duncan Matundura** whose wisdom and experience provided a pivot point for what is this dissertation.

I would also like to extend my gratitude, in general, to the members of the Faculty of Business and Management and my colleagues, whose challenges invigorated the research process adding value to this dissertation.

It is only proper that I also extend my gratitude to the 'team' that makes up the Consumer Banking Division at Standard Chartered Bank in general and the Head of Marketing and Service Quality for the conducive and enlightening environment that they created during the course of my research.

Last but definitely not least, the moral and material support of all my family deserves special appreciation, for if it were not for their sacrifices all this would not have been possible.

ABSTRACT

This research explored the customer retention indicators at Standard Chartered Bank in the Dar es Salaam region. The key indicator under investigation was customer satisfaction based on three customer service aspects, that is, interpersonal communication, service performance and complaint handling.

The research problem that instigated this research was that of many companies not taking into account these indicators and instead focusing attention on result oriented indicators such as profitability and productivity. In order to research this, questionnaires were distributed to management members and deposit account holding external customers. Data was then compiled and analyzed using computer software.

The results gave an indication that improvements in levels of satisfaction with the customer service mentioned above were likely to increase customer retention. This was supported by extraneous findings that indicated that customers were taking notice of other banks and that they are doing so as a means of filling the gap that existed between their expectations of the bank and what they were actually getting. As a result it was suggested that a number of elements should be rectified including employee satisfaction, service quality standard monitoring, and leadership involvement as these have are key drivers of customer satisfaction and customer retention.

Research in the future should include a preliminary survey to identify the specific customer service areas that customers use to measure satisfaction, trace the relationship between the satisfaction level and the likelihood that the customer will leave the bank; and include internal customers and validate the relationship that internal customer satisfaction levels have on external customer's satisfaction.

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LIST OF ABBREVIATIONS USED IN TEXT

BOT - Bank of Tanzania

NBC - National Bank of Tanzania

SCB - Standard Chartered Bank

SPC - Statistical Process Control

TQM - Total Quality Control

DEFINITION OF TERMS

Commercial Banks are service providers in that they make profits by selling liabilities with one set of characteristics (a particular combination of liquidity, risk and return) and using the proceeds to buy assets with a different set of characteristics – the asset transformation (Mishkin 1995).

Customer Retention is the act of keeping customers resulting from service quality and customer satisfaction (Ross 1995).

Customer Service is a strategic tool for increasing customer satisfaction and sales (Berkowitz et al 1989)

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Relationship Marketing refers to a concept that explains the management of customer relations. In turn, customer relations are seen to be an asset that is as important in preserving and enhancing the intangible asset commonly known as "goodwill" as is the management of hard assets (Levitt 1993).

Customer Satisfaction refers to a person's feeling of pleasure or disappointment resulting from comparing a product's perceived performance or outcome in relation to his or her expectations (Kottler 2000).

Interpersonal Communication refers to the process of communication (relaying of information between receiver and sender) where there are few participants involved, the interactions are in close physical proximity, there are many sensory used, and feedback is immediate (Allyn and Baycon).

Service Performance refers to the tangible aspects of a product that is features and quality, and their ability to perform reliably and consistently according to expectations (Ross 1995).

Complaint Handling refers to the strategies firms use to resolve and learn from service failures in order to (re) establish the organizations reliability in the eyes of the customer (Hart, Hesket and Sasser 1990)

CHAPTER ONE
OVERVIEW OF THE RESEARCH

This chapter gives an overview of the research, background of commercial banking in general and Standard Chartered Bank in particular; it also identifies the problem leading to the research and the resulting objectives, research significance and limitations.

1.0 Introduction

This research explores an area of marketing that has not received much practical attention in Tanzania. Customer retention, as a concept, is evolving into a practically relevant concern for organizations trying to achieve long-term prosperity.

Traditional measures of progress in an organization have focused on sales volumes, profit margins and productivity, many a times without looking at the critical indicators of customer retention that is the level of satisfaction of both internal and external customers (Ross 1995). Taking account of customer satisfaction gives the company an account of how well its services are meeting the expectations of its customers. As a result the company is in a position to develop programs that enable it to satisfy customers, encourage repeat purchase, cross-selling and maintain long-term profits.

In a Tanzania that is rebounding from 30 years of centralized economy, the focus of many companies is increasingly tied to profitability, cost reduction and increasing volumes as they chase after opportunities presented by market growth. This leads to many such companies undermining the indicators that result in customer retention and the relevance of the concept altogether.

This research was conducted on Standard Chartered Bank, Tanzania and aimed at filling the gap presented by the problem of not examining the indicators of customer retention.

The research focused more on the level of satisfaction of external customers with the following three attributes as critical indicators of customer retention:

1) Interpersonal Communication

2) Service Performance and

3) Complaint Handling.

1.1 Background of Commercial Banking in Tanzania

The banking and financial sector in Tanzania, as a result of the Arusha Declaration (1967) came under the control of the government. The commercial banking sub-sector was as a result monopolized by the National Bank of Commerce – NBC (with 92% of all bank deposits, and 189 branches)

1. At this time the only other players in the commercial banking sector were CRDB (1.8% 0f Deposits, 11 branches) and Peoples Bank of Zanzibar – PBZ (2.1% of deposits and 4 branches)

2. The Arusha Declaration nullified the role of the market in determining the prosperity of a firm and eliminated competition altogether. As a result the banking sector's orientation was primarily social with a focus on the products economic features. NBC was not prompted to think about customer retention, as there were no alternatives to services it was providing inside the country. It can be equally argued that for these same reasons customer attraction was not much of a concern for the monopoly either, as neglect of commercial considerations, decline in professional standards and quality became rampant

3. This state resulted largely from both internal and external pressure. That is to say, pressure exerted on NBC from outside to expand without adequate planning and preparation and pressure resulting from internal weaknesses such as indiscipline and low morale of staff and inadequate internal controls

The Banking and Financial Institution Act of 1991 paved the way for liberalization of the commercial banking sector in Tanzania. In the years that have followed NBC (with 23% of total deposits4 and 35 branches5) has lost its monopolistic hegemony and the sector now hosts more than 17banks including Standard Chartered Bank, Barclays Bank, Stanbic Bank, National Micro finance Bank and CRDB Bank to name a few.

The liberalized banking business spawns stiffening competition among the financial intermediaries operating inside Tanzania. These changes have come with opportunities and threats which forcibly compel these banks to formulate strategies that would favorably place them in a competitive advantage and consequently achieve shareholders wealth i.e. wealth maximization.

This transition from a dormant, monopolistic market that lacked in alternatives, to a highly competitive market where the target customers are more demanding and informed, and are approached by competitors with equal or better offerings poses a challenge to all the banks involved to examine indicators of customer retention such as customer satisfaction, which have a direct bearing on customer retention (Ross 1995).

Apart from this truth the concept of customer retention and its indicators is undermined in top management decision making when compared to result oriented attributes like profit and productivity.

1.2 Background of Standard Chartered in Tanzania

Standard Chartered Bank is a UK based foreign bank, which is focused on the established and emerging markets of Asia, Africa, the Middle East, the Sub Continent and Latin America. In Sub Saharan Africa, Standard Chartered has more than 130 branches in 12 countries and employs 5,500 people.

Standard Chartered first established its presence in Tanzania in 1917 and was nationalized in 1967 as a result of the Arusha Declaration. After the liberalization of the banking & financial sector in 1991, Standard Chartered re - opened its doors to the public in Tanzania in December 1993 and was the first foreign bank to be registered. The Bank started with one branch in 1993 and now has a total of eight (8) branches, five in Dar es Salaam, one in Mwanza, one in Arusha and one in Moshi. The Bank's Head Office is based in Dar es Salaam.

Standard Chartered Bank has long experience, investment, and wide representation in Africa and has been acknowledged in a number of ways including that of being voted "Best Bank in Sub - Saharan Africa" in 1998, 1999 & 2000 by the *Euro money Magazine.*

On the international front, the prestigious *Forbes Global Magazine* voted Standard Chartered Group the Best Performing Bank in 1999. Standard Chartered in Tanzania is committed to become the preferred Bank for its target customers.

At the time of its return, Standard Chartered Bank had a corporate client focus with retail services being marketed to 'high net-worth' individuals. It was the only foreign bank enjoying unique social status and market appeal.

With the retail banking market growing at an average of 16% for the past 10 years (BOT 2001; Mlaki 2002) and the market seeing the entry a number of other foreign players like Stanbic, Barclays and City Bank with same focus and competitive market appeal,
Standard Chartered Bank has taken steps to maximize the opportunities presented and minimize the threats. Standard Chartered Bank in 1998 decided to strengthen its retail banking scenario by forming the Consumer Banking Division and subsequently launching a number of branches to support its retail focus.

Its key objectives continue to be maximizing revenues and cutting costs so as to maximize shareholders wealth (see Appendix 3).

Due to this growing and intensifying competition between banks, be it local or foreign, for customers, a simple profit maximizing objective becomes mediocre and naïve. It then becomes critical for companies to properly examine the drivers of this profit, less they risk loosing it. This is true for Standard Chartered, which strives to be the bank of preference for its target customers, as other up and coming banks are also targeting for these same customers.

Apart from this, Standard Chartered Bank International Head Office in London has launched a new brand and bank values that being trickled to down to its subsidiaries, including Standard Chartered Bank Tanzania.

As a result it is relevant that Standard Chartered Bank understand why its customers continue to be or cease to be its customers by examining the critical indicators of customers retainability, that is the level of satisfaction of customer with specific attributes of the services it offers (in this case interpersonal communication, service performance and complaint handling).

1.3 Statement of Research Problem

There is a lack of improvement in customers satisfaction within the banks (Standard chartered bank). This is the reason that motivated me to carry out this reaserch with the main aim of of knowing which factors can lead to improvement of the customer satisfaction im order to improve profit within the standard chartered bank

This study explores the impact that improvements in customer satisfaction could have on customer retention at Standard Chartered Bank, as it is a key indicator of customer retention, which in turn affects profit (Ross 1995).

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1.4 Objectives of the Study

The general objective of the research was to examine the extent to which key indicators affecting customer retention are having an impact on Standard Chartered Bank and identify steps that the bank should take, if proven necessary.

The research more specifically aimed to:

- Indicating the level of satisfaction of customers with interpersonal communication at Standard Chartered Bank
- Indicating the level of satisfaction of customers with service performance at Standard Chartered bank
- Indicating the level of satisfaction of customers with complaint handling at Standard Chartered Bank
- Identifying other areas within the service provision system that have a bearing on customer retention
- Presenting recommendations to Standard Chartered on how to enhance its customer retention

Research questions

What are the areas within the service provision system that have a bearing on customer retention?

What are recommendations needed to Standard chartered on how to enhance its customer retention?

What are the level factors which indicating the satisfaction of customers with interpersonal communication at standard chartered bank?

How can the level of satisfaction of Standard Chartered bank with service performance at Standard Chartered bank be indicated?

How can complaints be handled at standard Chartered bank in order to achieve the highest level of satisfaction to the customers?

1.5 Research Hypothesis

Hypothesis 1 – **H1**

Improvements in the level of satisfaction with interpersonal communication are likely to increase customer retention at Standard Chartered Bank. If customers are less than 'highly

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satisfied' with interpersonal communication by the service providers then improvements in this area are required to increase customer retention at Standard Chartered Bank.

Hypothesis 2 – **H2**

Improvements in level of satisfaction with service performance are likely to increase customer retention at Standard Chartered Bank. If customers are less than 'highly satisfied' with service performance then improvements in this area are required to increase customer retention at Standard Chartered Bank. Service Performance in this research is taken to mean the quality of service in terms of reliability and availability of service.

Hypothesis 3 – **H3**

Improvements in level of satisfaction with complaint handling are likely to increase customer retention at Standard Chartered Bank. If customers are less than 'highly satisfied' with interpersonal communication by the service providers then improvements in this area are required to increase customer retention at Standard Chartered Bank. Complaint handling in this research is taken to mean the reasons provided for problems, the process and its outcomes

1.6 Research Significance

Directing attention to customer retention and customer satisfaction furthers the general understanding and interest in the relevance of these concepts as vital tools in the decision-making process for Standard Chartered Bank and the commercial banking sector in general. Apart from this general gain, Standard Chartered Bank will improve its efforts towards customer retention, service quality and development of customer relations marketing by finding out what its target customers are thinking about the services it is rendering.

Regulatory authorities and other authorities in the banking sector may sight this research as a base for further macro analysis of customer retention as a relevant concept in Tanzania's dynamic economy.

It is undoubtedly most significant in its direction to the customers of Standard Chartered Bank as the final beneficiaries of any fruit that such a research may bare in terms of improved service quality.

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CHAPTER TWO
LITERATURE REVIEW

This chapter presents theoretical and empirical literature that aims at developing an understanding of the existing relationship between customer satisfaction and customer retention and sheds light on the specific aspects that were tested to validate the assumption that improvement in levels of satisfaction by customers will likely increase customer retention.

2.0 Nature of Services

A service is any action or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything and from which its production may or may not be tied to the physical product (Kottler 1989). Kottler provides four major characteristics for services:

(1) They are intangible: that is they cannot be seen, tasted, felt, heard, or smelled before they are bought.

(2) They are inseparable: that is, typically produced and consumed at the same time. They involve a high level of provider-client interaction; both provider and client affect the product (staff changes for example could be received negatively if they affect *client preferred* staff).

(3) They are variable, that is, they highly depend on the provider and when and where they are provided. This characteristic provokes the need for companies to invest in good personnel selection and training.

(4) Lastly, they are perishable and as a result they cannot be stored. As a result service quality is harder to define and judge than product quality.

Commercial banks are service providers in that they make profits by selling liabilities with one set of characteristics (a particular combination of liquidity, risk and return) and using the proceeds to buy assets with a different set of characteristics – the asset transformation (Mishkin 1995).

In this manner, commercial banks are organized in two ways: 1) to provide needed services and 2) to earn appropriate return on the owners' capital investment (SADC Conference Report 1990).

From the customer's point of view, commercial banks can only be justified if they provide the needed service in an acceptable manner, contribute to economic welfare of their environments, give financial advice and are responsible (SADC Conference Report 1990).

According to Murdock et al (1986) bank managers are faced with the issue of attracting and retaining customers and base this effort on the banking service attributes of pricing of service, reputation of bank, services offered, time convenience, location convenience, employee convenience, employee attitudes, ownership of institution, return on investment, security of deposits, physical appearance, and promotion efforts.

Murdock et al further state that bank service marketers, in particular, must be sensitive not only to the various characteristics that may be evaluated but also to the unique needs of potential customers. That is to say, if perceived service falls below the expected service, the customers lose interest in the provider (Kottler 1989).

On the other hand, if the perceived service meets or exceeds the customer's expectations they are apt to use the provider again.

2.1 Customer Retention Explained

Customer defection is a problem and customer retention an opportunity in both manufacturing and service industries and service quality begins and ends with the customer (Ross 1995). This entails that any company interested in retaining customers must focus on customers.

Customer retention as a concept draws strength from relationship marketing and is a separation from customer attraction, which is inclined towards transactional marketing.

Customer retention is the act of keeping customers resulting from service quality and customer satisfaction (Ross 1995).

Figure 1, below, shows the system for improving customer retention and the drivers related to it as prescribed by Ross (1995). The system components are:

- *Internal service quality* establishes and reinforces a climate and organization culture directed towards quality.

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- *Employee retention* is achieved through good human resource management practices and organization development practices and organization development methods such as teams, job development, and empowerment. Employee retention depends on employee satisfaction, which in turn can be related to external service and customer satisfaction.
- *External service quality*, which is delivered through the organizations quality infrastructure.
- *Customer satisfaction* and follow-up, in order to reduce to reduce customer defection and improve customer retention.

These components serve as indicators of a company's ability to retain customers and what it can improve in order to increase customer retention (Ross 1995).

Kottler (2000) argues that customer retention is an important phenomenon because it has a bearing on costs and profitability over time. Sasser (1990) also supports this argument. Comparatively, customer acquisition requires substantial skills in lead generation, lead qualification, and account conversion. Consequently, it is not enough to attract new customers; the company must keep them. As a result he recommends four steps to reducing the defection rate (the rate at which the company loses customers):

- The company must define and measure its retention rate.
- The company must distinguish the causes of customer attrition and identify those that can be managed better.
- The company needs to estimate how much profit it loses when it loses customers.
- The company needs to figure out how much it would cost to reduce the defection rate.

Customer retention also depends on customer loyalty. As is evidenced in Kottler's explanation, it is important to identify the causes of perceived loyalty. Henry (2000) argues that loyalty does not necessarily arise from customer satisfaction, as customers may seem to be loyal because of several reasons; some of which have nothing to do with satisfaction superior service quality:

- They may have no good alternatives
- They may see no differences among alternatives they have and so follow along with convenient habitual patterns.
- They may be avoiding risk.
- The switching cost may be higher than the perceived value of going to an alternative.
- The current product may offer a total solution to ostensibly similar competitors.

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- The current provider may have an explicit loyalty program to encourage repeat business.

Henry (2000) furthers his argument by introducing types of retention based on loyalty that the company should avoid:

- Non-loyalty retention: This involves the existence of a monopoly, switching costs, and risk aversion.
- Canine-loyalty retention: This is dog-like loyalty where the customer is loyal even when the master mistreats him/her.
- Heroic-loyalty retention: This is hero-like loyalty where the customer is loyal to the company like a hero is loyal to his country or a revolution.

In this way, he claims that loyalty can also be a threat and that these types of loyal customers could be detrimental in the long term. Henry claims that the reputed safe fortress (built by these types of loyal customers) could, over time, become a trap.

Companies should be interested in retaining customers, though, for the following reasons (Reichheld 1996):

- Acquiring new customers can cost five times more than the cost involved in satisfying and retaining current customers. It requires a great deal of effort to induce satisfied customers to switch away from their current suppliers.
- The average company loses 10 percent of its customers per year.
- A 5 percent reduction in the customer defection rate can increase profits by 25 percent to 85 percent, depending on the industry.
- The customer profit rate tends to increase over the life of the retained customer

Loyalty might lead to increased profit over time if there is a forced ongoing relationship or an inertia driven relationship; if costs of maintenance decrease over time at a faster rate than revenues (Werner and Kunar 2000). It is further argued that focus on customer loyalty can provide general commercial advantages due to the following:

- Customers cost less to retain then to acquire _ The longer the relationship, the higher the profitability
- A loyal customer will commit more to its chosen supplier
- About half the new customers come from referrals from existing customers/ clients (indirectly reducing acquisition costs

Ultimately, the concept of customer retention finds its roots in the concept of customer orientation or customer focused marketing, which calls for organizing the company towards

the satisfaction of the customer needs. Ideally this entails that the offering, be it a good or service, should focus on the customer and his needs and/or expectations.

Apart from this realization there is a general lack of focus on customers; profitability is still king (Ross 1995). Ross (1995) continues to argue that there is, of course, nothing wrong with a focus on cash flow and short-term profits, but long-term profit and market share require a base of satisfied customers that are retained by a focus on satisfaction.

Another reason for lack of customer focus is the tendency of many firms to emphasize the techniques of Total Quality Management (TQM) such as Statistical Process Control (SPC) and other outcome oriented methods such as productivity and cost reduction.
Again, these are desirable and necessary, but a singular emphasis on these is as to put the cast before the horse (Ross 1995); simply put, the source comes before the results – always.
In this regard, defining the customer is critical because different people often buy the same product. The 80:20 rule highlights the difference in relative importance between customers - frequently, 20 percent of the company's customers may account for 80 percent of its business.

The customer is not really interested in the sophistication of the company's control process, its training programs, or its culture. The bottom line for the customer is whether he or she obtains the desired product (Denning, Juran & Crosby).
We observe that customer retention is a concept that calls for management to focus on customers by analyzing the indicators that reflect their satisfaction with services.

2.2 Customer Service

Customer service is a strategic tool for increasing customer satisfaction and sales (Berkowitz et al 1989). Customer service is the ability of a system to satisfy users in terms of time, dependability, communication relations, and convenience. Customer service is industry specific. In the case of banking services, customer service can be seen as the performance of core services, provision of support services, complaint handling, and interpersonal communication by service providers.

2.3 Relationship Marketing

Relationship marketing is a concept that explains the management of customer relations.

In turn, customer relations are seen to be an asset that is as important in preserving and enhancing the intangible asset commonly known as "goodwill" as is the management of hard assets (Levitt 1993).

Relationship marketing according to Kottler (2000) builds on the customer development process. This process is as follows:

- First time customers are developed into repeat customers.
- These repeat customers are then turned into clients, that is, people whom the company treats very specially and knowledgeably.
- These clients then grow into being members, that is, by forming membership programs that offer a whole set of benefits to customers who join.
- They are then turned into advocates (customers who enthusiastically recommend the company and its products or services); and finally 6) partners (when the customer and company work together). There are in turn, according to him, different levels of investment in customer relationships:
- *Basic marketing:* The salesperson simply sells the product or service
- *Reactive marketing:* The salesperson sells the product and encourages the customer to call if there are any questions, comments, or complaints.
- *Accountable marketing:* The sales person phones the customer a short time after thesale to check whether the product is meeting expectations.
- *Proactive marketing:* The company salesperson contacts the customer from time to time about improved product uses or helpful new products.
- *Partnership marketing:* The Company works continuously with the customer to discover ways to perform better.

These levels of relationship management are categorized according to profitability margin of the customers in question (See Table 1 below).

Table 1:: Investment in Relationship Marketing

	High Profit Margin	Medium Profit Margin	Low Profit Margin
Many customers	Accountable	Reactive	Basic/Reactive
Medium number of customers	Proactive	Accountable	Reactive
Few customers	Partnership	Proactive	Accountable

Source: Kottler, Phillip Marketing Management Millennium Edition, Prentice House, India (2000; 51

Berry and Parasurman (1991) distinguish three value-building approaches for a company interested in developing customer relations:

- *Adding Financial Benefits:* Two financial benefits that a company can offer are frequency marketing programs and club marketing programs. Frequency marketing programs (FMPs) are designed to provide rewards to customers who buy frequently and/or in substantial amounts. Club marketing programs bring customers closer to the company by forming clubs that can be open to all or have limited membership.

- *Adding Social Benefits:* Here the company personnel work on increasing their social bonds with customers by individualizing and personalizing customer relationships. This linked with turning customers into clients.

- *Adding Structural Ties:* The company may supply the customers with special equipment or linkages that help customers manage their orders, payroll, inventory, and so on. It is arguable that there is a positive relationship between lifetime profitability of a customer and relationship marketing as the company can benefit more from long-term relationships as compared to short-term relationships (Reichheld, Frederick F. 1993; Sheth and Parvatiyar 1995). Reiner and Kunar (2000) argue that relational and transactional should be properly balanced between customers.

2.4 Customer Satisfaction

Overall satisfaction or cumulative satisfaction is an overall evaluation based on the total purchase and consumption experience with a good or service over time (Anderson, Fornell, and Lehman 1994). In this way, cumulative satisfaction can be differentiated from transaction specific customer satisfaction, which is an immediate post purchase evaluation (Oliver 1993). Rather than catching the transient and encounter specific evaluations and emotions, applied market research should measure customer satisfaction as the customer's general level of satisfaction based on all experiences with the firm.

Customer satisfaction is a person's feeling of pleasure or disappointment resulting from comparing a product's perceived performance or outcome in relation to his or her expectations (Kottler 2000). As a result satisfaction is a function of performance visa v expectation. Kottler argues that companies should aim for high customer satisfaction because customers who are just satisfied find it easy to switch when a better offer comes along. High satisfaction creates an emotional bond with a brand not just a rational preference for the product or service.

Parasuraman et al (1985) further argues that expectation formation is based on past buying experience, friends and associates' advice and marketers' and competitors' information and promises. The difference between expectations and management perception of a consumer's expectations result in a gap that can explain dissatisfaction on the part of customers and research must aim to fill it (Parasuraman et al 1985).

The need to improve customer satisfaction in measurable amounts is well known, but what measures to use and how much improvement is needed is another issue (Ross 1995). Ross (1995) continues to argue that if a customer is willing to stand in line for two minutes but finds five minutes unacceptable, anything between is merely satisfactory. Zero to one is outstanding (high level of satisfaction). These are the market break points; where improving performance will change customer behavior, resulting in higher prices and sales volumes Customer satisfaction is the result of the three-part system (Ross 1995):

- Company processes/operations,
- Company employees who deliver the product and
- Service that is consistent with customer expectations. Thus the effectiveness of the three-part system is a function of how well these three factors are integrated (See Figure 1, below).

Figure 1: Customer Satisfaction Three Part
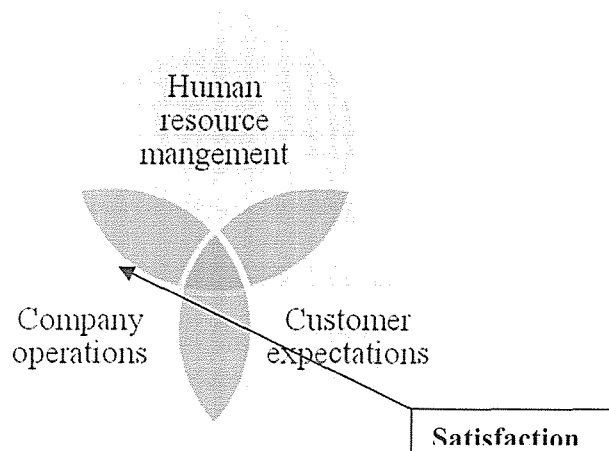
System

The overlap represents the extent to which customer satisfaction is achieved. The objective is to make this area as large as possible and ultimately to make all three circles converge into an integrating system. The extent to which this condition is achieved depends on the

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effectiveness of the 1) process, 2) employees, and 3) determination of what constitutes it (Ross 1995).

As stated before, the issues in building customer satisfaction are to acquire satisfied customers, know when you have them and keep them. The obvious way to determine what makes the customers satisfied is simply to ask them. Before or concurrently with a customer survey and audit of the company's Total Quality Management (TQM) infrastructures need to be made.

The key to generating high customer loyalty is to deliver high customer value. According to Lanning (1989), a company must develop a competitively superior value proposition and a superior delivery system. A company's value proposition is much more than its positioning on a single attribute; it is a statement about the resulting experience customers will have from the total resulting experience that customers can expect.

Whether the promise is kept depends on the company's ability to manage its delivery system. The value system includes all the communication and channel experiences the customers will have on the way to obtaining the offering.

Customer value is the judgement by a customer of the worth of a product or service relative to substitutes that satisfy the same needs (Berkowitz et al 1989:286). Kottler (2000) argues that customer's estimate which offer will deliver the most value. In turn customers are value maximizers, within the bounds of search costs and limited mobility and income. Customers form an expectation of value and act upon it; whether on not the offer lives up to the value expectations affects both satisfaction and repurchase probability (Kottler: 34).

Customers will buy the offer with the highest Customer Delivery Value (CDV) or the difference between Total Customer Value (TVC) and Total Customer Cost (TCC):

$$CDV = TVC - TCC$$

Total customer value is the bundle of benefits customers expect from a given product or service, which consists of the product itself, services, personnel and image. On the other hand total customer cost is the bundle of costs customers expect to incur in evaluating, obtaining, using and disposing of the product or service and consists of the monetary costs, time energy and psychic cost.

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According to Kottler (2000:48) the key to customer retention is customer satisfaction because a highly satisfied customer:

- Stays loyal longer
- Buys more as the company introduces new products and upgrades existing products
- Talks favorably about the company and its products
- Pays less attention to competing brands and advertising and is less sensitive to price
- Offers product or service ideas to the company
- Costs less to serve than new customers because transactions are routinized

2.5 Interpersonal Communication

The most significant problem with the delivery of services is that it is typically measured at the customer interface – the one on one, face-to-face interaction between the customer and service provider. This makes interpersonal communication an essential base for measuring satisfaction. Interpersonal communication is the process of communication (relaying of information between receiver and sender) where there are few participants involved, the interactions are in close physical proximity, there are many sensory used, and feedback is immediate (Allyn and Baycon). They continue to elaborate by stating the functions of interpersonal communication as being:

- Gaining information that is people engage in interpersonal communication so that they can gain knowledge or information from another person
- Building a context of understanding that is people engage in interpersonal communication so as to get an understanding in a given context.
- Establishing identity and interpersonal needs that is to say people engage in interpersonal communication so as to develop an image or identity in society and inner need to express and receive interpersonal needs

This complex setting indicates that interpersonal communication requires not only a formal/business link, but an emotional one for communication to be effective.

They present four critical principles of interpersonal communication:

- Interpersonal communication is inescapable. Communication must be done whether it is through words, or through tone of voice, gesture, posture, facial expression; we cannot 'not communicate'.
- Interpersonal communication is irreversible. Once said, statement must inevitably remain.

- Interpersonal communication is complicated. This implies that because the number of variables involved, even simple request can be very complex.

Interpersonal communication on most account in service industries like banks occurs at point of contacts between customers and frontline employees. Although, the significance of frontline employees for organizational effectiveness and is uncontested by managers and researchers alike (Hartline and Farrel 1996; Larkin and Larkin 1996; Rucci, Kirn and Quinn 1996). Evidence has accumulated with alarming regularity to support Hartline and Farrel (1993) observation that frontline employees are typically underpaid, under trained, overworked and highly stressed (Weatherly & Tansik 1993).

Batson's (1985) analysis of frontline jobs as a 'three cornered fight' in which the customer (demanding attention and service quality) is on one side and the organization (demanding efficiency productivity) is on the other side. This state uniquely develops as a result of the complex demands put around interpersonal communication resulting in employee burnout and turnover rates escalating and increasing customer dissatisfaction (Batson 1985).

2.6   Service Performance

Service performance is defined by the tangible aspects of a product that is features and quality (Ross 1995), which are in the case of services, intangible. In general, services are activities, benefits, or satisfactions that are offered for sale, they are intangible, variable, and perishable. As a result they normally require more quality control, supplier credibility and adaptability. Quality is a conformance to requirements and level of performance; performance criteria are usually durability, speed and reliability. Features are competitive tools for differentiating the company's product from competitors' products.

One major way to differentiate a service firm is to deliver consistently higher quality service than competitors. The key is to meet or exceed the target customer's expectations. The expectations of customers are based on past experiences, word of mouth and service firm advertising. As a result customers will be satisfied with service performance if they get what they want, when they want it, where they want it, when they want it and how they want it.

It is necessary to research the specific customer criteria for any specific service; for example a bank customer may expect on a trip to the bank that they will not wait in line more than five

minutes, that the teller will be courteous, knowledgeable, and accurate, and that the computer will not break down (Ross 1995).

2.7 Complaint Handling

Complaint handling refers to the strategies firms use to resolve and learn from service failures in order to (re) establish the organizations reliability in the eyes of the customer (Hart, Hesket and Sasser 1990)

From a process perspective complaint handling can be viewed as a sequence of events in which a procedure, beginning with communicating the complaint, generates a process of interaction through which a decision and outcomes occur.

Effective complaint handling can have a dramatic impact on the customer retention rate, deflect the spread of damaging word of mouth, and improve the bottom line performance (Fornell & Wenerfelt 1987; Kelley, Hoffman & Davis 1993).

Effective resolution of customer problems and relationship marketing are linked closely in term of their mutual interest in customer satisfaction, trust and commitment (Achrol 1991).

Complaint handling strategies are important particularly in managing relationships in service businesses. Challenges in managing quality, combined with important role played by customers in the service production process and evidence that customer loyalty drives profitability make complaint handling a critical moment of truth (Berry & Parasuraman 1991).

A complaint is viewed as a conflict between the customer and the organization in which the fairness of: the resolution procedure, the interpersonal communication and the outcomes are principle evaluative criteria of the customer.

Complaint data are key in quality management efforts because they can be used to correct problems with service design and delivery, which makes it more likely that performance will be done right the first time (Lovelock 1994).

2.8 Empirical Literature Review

Limited research has been conducted and exposed in this area in Tanzania, understandably because of the historical landscape that defined banking in Tanzania.

Overall, it is evident that empirical research from outside Tanzania supports the need to evaluate customer retention as a concept based on customer satisfaction or customer perceived value.

Customer Retention Associates (CRA) in their research discovered that evaluating customer retention based on customer satisfaction is at minimum misleading. They propose as a result of these findings that studies/researches on customer retention and loyalty should examine those deliver attributes that most relate to customer market action and commitment - a reflection of their perception of value. This should, according to them, begin with identifying and prioritizing what creates and drives value for customers.

Schneider (1999) in his research addresses customer satisfaction by presenting two models: met-expectations model and need-based model, where he argues that customer satisfaction is best understood through examining the basic customer needs of security, justice, and self esteem:

Security: the need to feel unthreatened by economic or physical harm

Justice: the need to be fairly treated

Self-esteem: the need to maintain and enhance one's self image

The American Management Association in its most exhaustive research in its history, surveyed over three thousand respondents; 78% identified improving quality and service to customers as the key to competitive success and 92% indicated that providing superior is one of their key responsibilities, regardless of position. To say that your competitive edge is price is to admit that your products and services are commodities. *Earnst & Young* conducted a study and found that quality – performance measures such as defection rates and customer satisfaction levels play a key role in determining pay in only fewer than one in five companies. Profitability is still king.

Observation: The literature presented gives an indication that improvements in satisfaction levels are likely to increase customer retention, in that customer retention depends on customer satisfaction. Any analysis on this issue must not only grasp hold of the views of customers, but also consider the readiness of internal service quality management system to support such an initiative.

CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Type of Research

This is a descriptive research in that its primary aim is to describe the magnitude of the key indicators of customer retention. This research focuses on the level of satisfaction of external customers as a key indicator of customer retention.

3.1 Research Approach

The research was a case study of Standard Chartered Bank Dar Es Salaam operations and made use of two research approaches, namely: Qualitative and Quantitative research approaches:

3.1.1 Qualitative Research Approach

The research made use of qualitative research approaches that were used on the management members, as they were few in number and provided primarily descriptive information based on their opinions of the company's operations. This was done through an inquiry made on the bank through interviewing 5 members of management and general observation of activities as they occur in the office.

3.1.2 Quantitative Survey Research Approach

The research also made use of a quantitative survey research approach, which is best, suited for descriptive research (Babbie 1989). Babbie (1989) continues to argue that companies undertake survey research to learn about people's knowledge, beliefs, preferences, satisfaction and so on and to measure their magnitudes. Quantitative survey research is probably the best method available to social scientists interested in collecting original data for describing a population too large to observe directly. Surveys are also powerful vehicles for measuring attitudes and orientations.

This approach entailed the use of techniques to address a sample of Standard Chartered Bank customers, as they were a relatively larger group in order to be able to draw inferences on the population at the bank.

3.2 Sampling

3.2.1 Sampling Unit

This research made an inference on the population of Standard Chartered Bank customer in Tanzania holding deposit accounts with the bank. In total Standard Chartered has approximately twelve thousand such customers. It did so by use of a sample unit of deposit account holding customers who make use of Standard Chartered Dar es Salaam banking hall facilities. This sampling unit of 120 was chosen based on industrial standards set for such researches (Dillon et al 1993) and was confirmed after consultation with bank officials and realization of the following.

- Dar es Salaam continues to be representative of Standard Chartered Bank's representative target customers and Dar es Salaam branches continue to retain a majority of the total bank deposits and overall banking facility utilization (Kimani 2002).
- Due to time and financial constraints and the need to enhance the control over the research process that was being conducted by one researcher, a manageable geographical reach was preferred.

3.2.2 Sampling Procedure

The research made use of a *quota sampling procedure* where the sample was picked according to a set quota of 30 respondents per branch per day so as to get a representative group of respondents. The main focus was to get at least 80% of the respondents who have account sizes higher than one million. The task of maintaining this quota was that of the researcher who at his discretion accepted respondents who fit this requirement.

This quota of 30 was set for each of the four branches and the questionnaires were administered through interview to customers in a 6-hour working for 4 working days.
The minimum number of representative responses set per working day was twenty-five.
In two cases the exercise had to be extended to two working days (that is, the International House Branch and Shoppers Plaza Branch) for reasons of lower than expected turnout or the respondents not being representative of the 80% above one million set limit for each quota.

Apart from the fact that this method may result in bias as the researcher influences the respondent selection process (Dillon et al 1993), it was necessary to use such a method due the following reasons:

- Limited fund availability and time to administer a simple random sampling approach.
- Also, this approach is more significant for this research as it targets customers who actually make use of bank hall facilities and as a result the most appropriate way to administer the questionnaire is in the bank halls.

As a result the sample selected from the procedure was representative of Standard Chartered Customers.

3.2.3 Sample Size

The sample consisted of 120 target respondents; this is an industrial standard according to Dillon et al (1993) for such marketing researches, of which, there were 111 sufficiently filled questionnaires from the respondents that were contacted and interviewed within the Dar es Salaam region.

This is 92% of the target sample size which is above the ruling criteria set for the sample which was 50% of the respondents contacted; this number is ideal because the sample size is large i.e. $n>30$.

3.3 Data Collection

3.3.1 Data Collected

The data collected was of two kinds:

Primary Data

Primary data is data that is unique to this research and was collected for the first time as a result of this research. This included: Data from customers on their level of satisfaction with the service performance, complaint handling, interpersonal communication and other extraneous information unique to the respondents' views on the services being provided at the bank. This information was gathered from a questionnaire developed for customers.

Secondary Data

Secondary data is the data that was already in existence and formed the base for a general review to develop an understanding on the situation as is. This information was gathered from published and unpublished documents, which included:

- Documents from financial and/business journals

- Documents from the Bank of Tanzania

- Documents from Standard Chartered Bank company record

- Documents made available in libraries including the UDSM Library, Open University Library.

3.3.2 Data Collection Methods

The following methods was used to collect data:

Questionnaires

In this research I made use of structured questionnaires. Two questionnaires was designed, one for the staff and the other for the management of Standard Chartered Bank (See Appendices 1& 2).

The questionnaire for Standard Chartered Bank external customers aimed at producing primary data on the views of customers about their level of satisfaction with the services the bank is providing, while the questionnaire for management aimed at deriving information on the readiness of the internal system to cater to the improvements necessary to increase customer retention.

The questionnaires were structured and generally included two types of questions:

- *Closed-ended questions* were dominant so as to make it easier to analyze the findings. These questions pre-specified all the possible answers calling for the respondent to make a choice among them. This category included:

- Dichotomous questions where there are two answer choices (yes or no)

- Multiple choice questions offering three or more options

- Balanced rated scales which measured satisfaction from highly to not satisfied

- *Open-ended questions* were also used where the respondent was allowed to respond in his or her own words.

Interview

The above-identified questionnaires were administered primarily through two methods all-falling under the general category of interviews, which are personal and telephone interviews.

96% of the interviews were carried out in person and four interviews were done through telephone. Interview will be preferred so to increase the accuracy (reducing sampling error) by increasing the number of completely filled forms. Overall response rate is one guide to the representativeness of the sample respondents. If a high assurance rate is achieved, there is less chance of significant response bias then if a low rate is achieved (Babbie 1989).

The telephone interviews was conducted with select customers so as increase the representativeness of the respondents.

Documentary Review

In order to gather secondary information, there will be visitations to Standard Chartered Bank Offices, Libraries, and the Bank of Tanzania. This method was most appropriate for collecting secondary data.

3.3.3 Data Collection Procedure

The researcher interviewed members of the Standard Chartered Bank Consumer Banking Department to establish a basis for developing a general questionnaire for their customers and then administering the activity there after.

The researcher consolidated these findings with secondary data made available by other sources.

After developing the structured questionnaires, they were then administered through interview methods as explained in the previous sub-section (Subsection 3.2.2 & 3.3.2).

3.4 Data Analysis

3.4.1 Descriptive Analysis

This study made extensive use of descriptive analysis as the main intention of this research was to examine the distribution of cases only one variable at a time. This entailed making use of the following statistical concepts:

- Percentages
- Measures of central tendencies (Mean)
- Measures of dispersion (Standard Deviation)
- Standard Error

Percentages were used to present the data in a manageable form for a general analysis of the findings.

Means were used to establish the degree of convergence. The Mean was calculated by the following formula:

$$C = \sum f_i X_i - x$$

Where,

C = mean of sample set of scores

Xi = midpoint of the ith class

n = number of scores

fi = frequency of the ith class

The Standard Deviation was used to measure the level of divergence of the findings. The Standard Deviation was calculated by use of the following formula:

$$\delta = \sqrt{\frac{\sum (Xi - X) fi}{n - 1}}$$

Where,

δ = standard deviation

Xi =midpoint of the ith class

X = the mean score

n = number of scores

fi = frequency of the ith class

The Standard Error (*SE*) is the error of the sample. The Standard Error was calculated by use of the following formula:

$$SE = \delta / \sqrt{n}$$

Where

δ = the standard deviation

n = the size of the sample

3.4.2   Criteria for Testing Hypothesis

All three hypotheses indicated in chapter 2 will be tested based on the following criteria:

Reject all hypothesis that result in Mean Average of 3.5 or greater for the level of satisfaction indicated by customers (Kottler 2000; Ross 1995) with a tolerance limit of 0.1. On a balanced rating scale with four rates where 1 is 'not satisfied', 2 is 'lowly satisfied, 3 is 'satisfied' and

4 is 'highly satisfied', any rating 3.5 and above is averaged out to indicate 4 or 'highly satisfied'. As a result the logic for the cut-off point of 3.5, this represents the lower limit of highly satisfied customers.

3.5   Limitations of the Study

3.5.1   Time

The researcher faced time constraints in the process of collecting data. This was attributed to the exercise in general being limited to a pre-set time period, which included internship. As a result many aspects of the research had to be accommodative of other activities going on in the bank, which included a survey the bank had issued forcing the issuing of the questionnaire for this research to be delayed to avoid over questioning of customers.

3.5.2 Finance

The researcher was constrained financially. This primarily attributed to the fact that the exercise was primarily self-sponsored. As a result, certain value adding aspects of the research could not be administered effectively.

3.5.3 Data collection

Data Collection From Standard Chartered Bank Management

Standard Chartered Bank management was not in a position to disclose all the information requested due to lack of availability of the information as requested and the inability of the bank to disclose all documents as they are.

Data Collection from Customers

The researcher also experienced problems with customers, as many were reluctant due to avoiding delays in getting their services as they were receiving services.

3.6 Delimitations

This research was limited to the Dar es Salaam area deposit external customers and focused on customers that are already account holders of Standard Chartered Bank and make use of Standard Chartered Banking hall facilities. This research was limited to Dar Es Salaam due to the limited reach of the researcher who will be conducting his research and internship in Dar Es Salaam and equaled desire for control over the research process apart from these limitations.

CHAPTER FOUR
RESEARCH FINDINGS AND ANALYSIS

This chapter presents the findings, data analysis and the resulting interpretations. The results of this research are organized as follows: The findings for the hypothesis related questions are presented in terms of percentages along with their measures of conversion and diversion. General descriptive findings of the extraneous data on the customer's loyalty tendencies are also presented. Lastly the findings are tested based on the criteria set for testing in Chapter 3.

4.0 Description of Respondents

Different types of respondents were involved in the study. The results are representative of the client base generally taken to be target customers by the Consumer Banking

Division who most frequently make use of the bank hall facilities, in that, 76% had account sizes exceeding 1mill and 39% had account sizes exceeding 10mill; 81% of the respondents were business and personal account holders. The specific data is in Table 1, below. 96% (111) of the targeted 120 respondents provided adequately filled forms

Table 2: Showing Description of Respondents

DESCRITION	NUMBER	PERCENT
By Branch		
International House	26	23
City	28	25
Shoppers Plaza	30	27
Life House	26	23
TOTAL	**111**	**100**
By Sex		
Male	72	65
Female	39	35
TOTAL	**111**	**100**
By Account Age		
Less than 2years	48	43
Between 2 & 5years	45	41
Above 5years	18	16

TOTAL	111	100
By Account Size		
Less than 1mill	27	24
Between 1 & 10mill	41	37
Above 10mill	43	39
TOTAL	**111**	**100**
By Account Type		
Personal	60	54
Business	30	27
Corporate	21	19
TOTAL	**111**	**100**

Source: Researcher

4.1 Findings from customer survey

The following are findings are from the questionnaires to customers that make up the hypotheses that being tested were as following (Also make reference to Appendix 4 (a – c) for data explosion):

Figure 2: Chart Showing Level of Satisfaction with Interpersonal Communication

Figure 2 above shows the results for the level of satisfaction with interpersonal communication in percent. It indicates that 29% of the customers are highly satisfied, 62% of

the customers are just satisfied and 9% are lowly satisfied; no customers were 'not satisfied' with interpersonal communication.

Table 3 below shows the actual number of responses and their convergence and dispersion; indicating that, overall, customers are just satisfied with a mean average of 3.2, standard deviation of 0.58 and standard error of 0.06.

Table 3: Level of Satisfaction with Interpersonal Communication

	Total
No Answer	1
Total Respondents	**111**
Total Answers	**110**
Highly Satisfied	32
Satisfied	68
Lowly Satisfied	10
Not Satisfied	0
Mean base	110
Mean	3.20
Standard Deviation	0.58
Standard Error	0.06

Source: Researcher

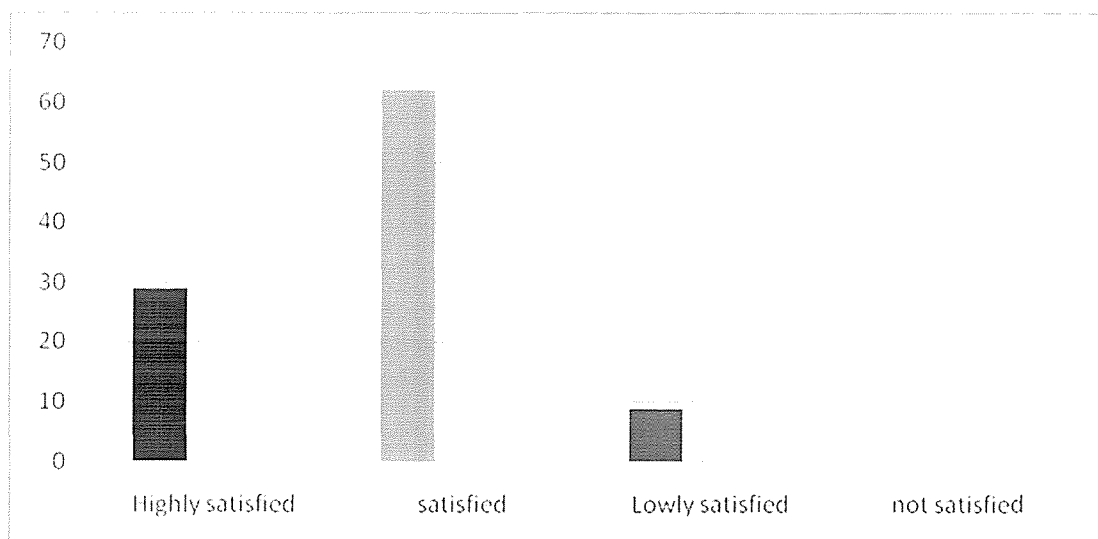**Figure 3: Level of Satisfaction with Service Performance in Percent**

Source: Researcher

Figure 3 above shows the results for the level of satisfaction with service performance in percent. It indicates that 32% of the customers are highly satisfied, 62% of the customers are just satisfied, 5% are lowly satisfied and 1% were 'not satisfied' with service performance.
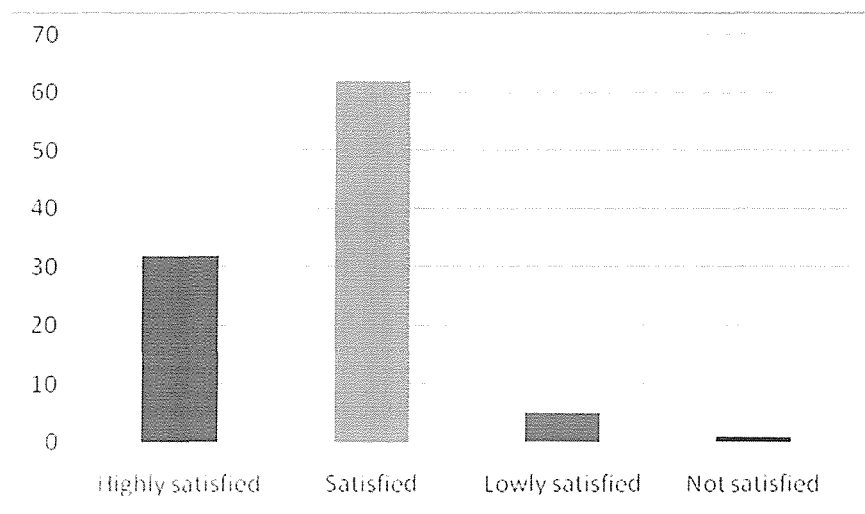
Table 4 on the next page shows the actual number of responses and their convergence and dispersion; indicating that, overall, customers are just satisfied with a mean average of 3.26, standard deviation of 0.58 and standard error of 0.06.

Table 4: Level of Satisfaction With Service Performance

	Total
No Answer	0
Total Respondents	111
Total Answers	111
Highly Satisfied	36
Satisfied	69
Lowly Satisfied	5
Not Satisfied	1
Mean base	111
Mean	3.26
Standard Deviation	0.58
Standard Error	0.06

Source: Researcher

Figure 4: Level of Satisfaction with Complaint Handling

Source: Researcher

Figure 4 above shows the results for the level of satisfaction with complaint handling in percent. It indicates that 16% of the customers are highly satisfied, 63% of the customers are just satisfied, 17% are lowly satisfied and 5% were 'not satisfied' with complaint handling.
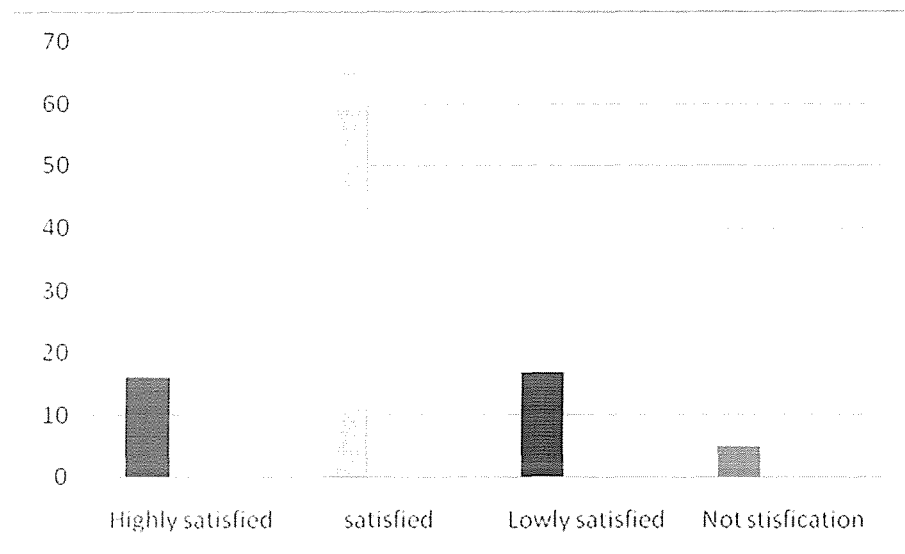
Table 5 on the next page shows the actual number of responses and their convergence and dispersion; indicating that, overall, customers are just satisfied with a mean average of 3.89, standard deviation of 0.71 and standard error of 0.07.

Table 5: Level of Satisfaction with Complaint Handling

	Total
No Answer	8
Total Respondents	111
Total Answers	103
Highly Satisfied	16
Satisfied	65
Lowly Satisfied	17
Not Satisfied	5
Mean base	113
Mean	2.89
Standard Deviation	0.71
Standard Error	0.07

Source: Researcher

4.1 Extraneous Findings

The extraneous descriptive findings from the questionnaire indicated the following (see Appendix 4(d – i) for data explosion):

- The reasons that lead Standard Chartered Bank Customers to join the bank were as follows: 5% percent joined the bank because it was the only bank they knew, and 40% joined because of recommendations from friends or employees of the bank. 37% percent joined the bank because it offered superior service and 18% provided other reasons like provision of ATMs, products available (personal loan), and their employer banks with SCB to name a few.

- 74% of the respondents were convincing others compared to 26% who have not convinced anyone at all.

- The reasons given by customers for stopping to bank with Standard Chartered Bank were as follows: 37% mentioned time taken for answering queries, posting, check clearance and queuing. 15% mentioned charges as either being too high, too many or changing too often. 10% of the reasons were related to ATM problems. 37% mentioned other reasons like the loan policy, customer being low, and too many customers, mixing long corporate transaction with short personal ones.

- 63% of the customers interviewed take notice of other banks, while 37% of the customers are not taking notice.

- The main reasons for noticing other banks were: reach (12%), time taken and efficiency, and 20% of the customers mentioned customer focus/ personalized services. 55% mentioned other reasons like ATMs provision, advertising, charges, reputation, management standards, complaint handling and loans provision.

- The banks being noticed are the following: Barclays (26%), NBC (22%), CRDB (19%), City (15%), and other banks were mentioned by 19% of the times.

4.2 Analysis of Findings and Hypotheses Testing

The data presented above in section 4.0 leads to the following results in terms of the hypotheses being testes:

Test of Hypothesis 1

Hypothesis 1 indicates that 'improvements in level of satisfaction with interpersonal communication are likely to increase customer retention'. This hypothesis was addressed in section 2 of the questionnaire. The results supported this assumption based on the same criteria set, that customers who are less than 'highly satisfied' are less likely to be retained (Kottler 2000; Ross 1995); in this case the Mean average was 3.2, which is less than 3.5. The standard error of 0.06 indicates that these results are also within our tolerance limits. The results also indicated that no customers were completely 'not satisfied' with this area and that 32% were highly satisfied. This entails that something is being done in this area but it is not sufficient enough to get support from customers.

Test of Hypothesis 2

Hypothesis 2 indicated that 'improvements in the level of satisfaction with service performance is likely to increase customer retention' was also accepted based on the same criteria that customers who are less than 'highly satisfied' are less likely to be retained (Kottler 2000, Ross1995). This hypothesis was dealt with in section 3 of the questionnaire to customers. The results for this question indicated a Mean Average of 3.26 and a standard error of .058. The results indicate that the customers are just satisfied with this area. This area received the highest rating in terms of satisfaction compared to the other tested areas.

Test of Hypothesis 3

Hypothesis 3 indicated that 'improvements in satisfaction level with interpersonal communication were likely to increase customer retention'. The rated question used to address this area in section 3 of the questionnaire for customers took into account the complexity of the complaint handling process (Tax et al 1998) that is the process itself.
The Mean Average of 2.89 leads us to accept this hypothesis based on a 0.07 standard error, in that, customers were less than 'highly satisfied' which entails they are less likely to be retained (Kottler 2000; Ross 1995). This area received the lowest rating that the complaint handling process is the weakest area in terms of customer service.

4.3 Analysis of Extraneous Findings

Although the researcher was primarily interested in establishing the level of satisfaction of customers with interpersonal communication, service performance and complaint handling, but the extraneous findings present us with additional factors that play part in determining

this level of satisfaction. The researcher therefore finds sense to appreciate the confounding result in this study.

In general the extraneous findings support the above stated interpretation in that:

The respondents generally were attracted to join the bank by superior service and recommendations but are generally likely to stop banking with Standard Chartered because of service related issues like time taken to get service, charges and problems with ATMs. This indicates that the bank is not meeting the expectations of its customers hence reducing their overall level of satisfaction.

63% of the customers indicated that they had taken notice of other banks for due to the time taken to get services and efficiency, their focus on customers/ personalized services and reach. The banks being most noticed in this regard are Barclays, CRDB, NBC and

City Bank. This indicates that customers are trying to find out who can fill the gap that Standard Chartered Bank is leaving open.

The results also indicated that 74% percent have convinced others to join the bank with an average of 3 people being convinced per respondent.

These findings portray a gap that is resulting from the difference existing between customer expectations and management's perception. This is an indication that management needs to do more to become enlightened of the particular elements leading to the gap and make an effort to fill this gap before other banks do.

As a result it becomes even more evident that improvements in satisfaction levels of customers are likely to lead to increased customer retention.

4.4 Conclusion

In spite, of the banks impressive performance in terms of wealth generation and deposit growth in the banking sector, this research reveals that the respondents are less then 'highly satisfied' with interpersonal communication, service performance, and complaint handling and as a result improvements in these areas are likely to increase customer retention. The extraneous findings support these findings as they indicate that there is a gap between customers' expectations of the bank in terms of the reasons that made them join (that is recommendation and superior service) and what they are experiencing. The customers as a result are taking notice of other banks because of their faster services and customer focus (these being the key reasons for looking at other banks).

Standard Chartered has traditionally focused on corporate and 'high net worth' customers who in turn have helped it build an enviable service quality image that has attracted a large number of customers. This, along with new products intended to attract less then 'high net worth' customers has resulted into overcrowding of transactions that in turn weighs down on the banks service quality provision capacity. This scenario compels me to assert that the bank has yet to appropriately accommodate such an impact as it is having an outweighing effect on its ability to create value for it customers in accordance with their expectations.

CHAPTER FIVE
SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

This chapter presents a summary of the entire research work; the conclusion of the entire research work, recommendations and suggestions for further research.

5.0 Summary of Findings

The findings from the previous chapters indicate that improvements in the different aspects of customer retention are necessary if Standard Chartered Bank is to improve its customer retention.

In all three cases of interpersonal communication, service performance and complaint handling it has been indicated by statistical inference that customers are less than 'highly satisfied' with these aspects. From the extraneous findings further evidence is presented that gives indication there is a gap existing between the expectations of the customers and management perception.

This truth presents definite implications to the management at Standard Chartered that call for definite steps to be taken to arrest this situation.

5.1 Implications of Research

The results indicate that the level of satisfaction is less than outstanding or 'highly satisfying' for interpersonal communication, service performance and complaint handling and as result customers are less likely to be retained. Improvements in these areas are likely to have a great impact on Standard Chartered Bank's ability to retain customers, cross sell products and increase profits.

The failure to satisfy existing customer makes it harder to cross sell products and maximize on revenue potential:

- This research exposes that customers are agents (according to the research 1 customer on average has convinced 3 other customers) of the bank and when satisfied save the bank on average of 2,637 dollars for attracting BFS customers, and/ or 553.8 dollars for attracting personal account customers per retained customer6.

- 100% of the present CBD personal loans are facilitated for customers that have existing ties with the bank, either directly or through their employers.

- With projections for revenue aiming to corner 12% of the personal/ auto loans market and 5% of the BFS loans, existing customers have to be highly satisfied so as to encourage repeat use and cross selling amongst its clientele base. Lowly satisfied customers on the other are likely to direct their attention elsewhere, as has been evidenced by the research.

This research draws attention to the absolute necessity to develop a comprehensive system that manages service quality, in that interpersonal communication, service performance and complaint handlings are interconnected customer service aspects. That is to say, a customer's initial encounter with the bank will entail interpersonal communication (seeking to gain information on any particular service), which will lead to service performance (the successful or unsuccessful use of the service provided) and if anything goes wrong complaint raising; and in many cases this is not a step by step flow, but rather a complex mixture of events that makes near impossible to manage by chance.

Improvements in interpersonal communication, service performance and complaint handling should lead to the management of service quality by design and not chance as a means of increasing customer retention.

5.2 Recommendations

The major intention of this research as stated above was to indicate the level of satisfaction that customers had with interpersonal communication, service performance and complaint handling with the intention of drawing findings that will have an impact on Standard Chartered Bank Tanzania's total service quality perspective and development of customer relations as necessary means of increasing customer retention.

Along with these practical implications for the bank, the general banking community is likely to benefit from the findings of this research.

5.2.1 Recommendations for Standard Chartered Bank

Improvements in Interpersonal Communication

Interpersonal communication depends on the parties concerned in it. The only way to improve interpersonal communication is to know as much about those concerned with the interaction as possible.

Customers generally engage in interpersonal communication as a means of gaining information, understand and satisfying their own personal needs. The balance of this calls for an extensive research that may not be in the focus of the bank at present.

Important, though, is that the employees who are readily interacting with customers be made aware of these particular needs and how to respond t o them.

SCB needs to identify who is interacting with customers and how they can be better equipped to deal with the complex characteristics of interpersonal communication. In many cases frontline personnel, like those who work in the branches (tellers, personal finance consultants and service managers), are in frequent contact with customers. This contact and top management demands for productivity may result in employee burnout, and dissatisfaction that overflows onto the customer.

Improvements in Service Performance

Service performance is a critical indicator of service quality. SCB should conduct a service quality audit. These less then outstanding satisfaction level results with service performance are reflective of a gap between the expectations of customers and what they experience. SCB needs to conduct a service audit that examines the processes involved in executing services, in terms of actual time and expected time. The fact that many customers would leave as a result of time taken in carrying out services indicates that this is an area that the bank can capitalize on.

Service quality also depends on the level of ownership of employees in it. In-order for employees to take up ownership in service quality they have to be involved and motivated towards it. Involvement entails being involved in setting quality standards and how they will be monitored. Motivation of employees, likewise, has to be linked to service quality.

Improvements in Complaint Handling

Complaint handling is a complex process that brings together both service performance and interpersonal communication. That is to say, those customers who encounter service problems may decide to communicate their dissatisfaction. As a result, a compliant is seen as an opportunity to impress the customer or a threat in that you may expose weaknesses existing in the links that influence service provision. As a result improvements in complaint handling call for improvements in service performance and interpersonal communication.

The fact that this aspect received the lowest rating is an\ indication that more effort needs to be directed to it.

In the case of complaint handling, improvements in interpersonal communication call for employees being trained in 'complaint intervention' skills like listening skills and anger diffusion methods. This training as was stated above should include simulation exercises that focus on irritated customer encounters.

Apart from this, complaint handling procedure have to be instituted that enable frontline employees to make decisions and resolve complaints. This in general will affect the speed, convenience, accessibility, and flexibility of complaint procedures.

Employee Retention and Motivation

It evidenced above and highly supported by literature review (Ross 1995) that employee dissatisfaction is most evidenced in decreasing employee retention, and absenteeism, and has a direct bearing on external customer satisfaction. The high/ increasing rates of employee turnover expressed by management at Standard Chartered Bank should act as an indicator of the source of the low satisfaction level expressed by customers.

Workloads, competencies and personal characteristic traits of employees, especially those that are in contact with customers, should be evaluated so as to increase employee satisfaction and possibility for intervention. Employee retention affects greatly customer satisfaction as it is a sign of employee satisfaction; external customers cannot be satisfied is internal customers are not satisfied.

Employees can be motivated through involvement and training. Training in all regards must be linked to customer satisfaction and as a result should entail simulations and roleplaying methods. Training that simply roles out the bottom line and instruction manuals usually does not hit the mark.

It must also be noted that due to the changing many employers are aggressively redesigning job offers to attract the attention of suited candidates, including those trained by Standard Chartered Bank. As a result Standard Chartered should see customer defection in this light also.

Management Priorities

The main driver to increasing satisfaction levels of internal and external customers is leadership involvement in service quality initiatives (Ross 1995). Top management must become convinced that customer satisfaction is a pre-requisite for increased profits and revenue. Objectives that focus on revenue overlook what it takes to get those revenues.

The top management at SCB needs to set specific quality targets and standards that aim at improving customer satisfaction.

For example more emphasis should be put on servicing customers at branch level. At present branch managers are rated more highly for effecting new sales than for servicing customers while in actual fact the main customer relations center is the branch.

Key performance indicators for bank managers, customer service managers, and other frontline employees for 'customer satisfaction', 'accuracy and turn around times', 'queuing lengths being kept at minimal time possible', 'minimal incidences of fraud' – need to indicate specific measures and how they will be accounted for (See Attachments 3 – Responses from questionnaire 2).

Customer Focus

Standard Chartered Bank's customers differ in many regards and cannot be handled as a bulk. Customer relationship marketing calls for identifying the unique needs of the customers you have and responding to them accordingly. With the introduction of new products such as personal loans, executive accounts that attract a non-traditional

Standard Chartered Bank target customer base, efforts need to be made vary focus to accommodate these new customers without frustrating the old ones.

- The Excel program, for customers with account accounts exceeding 25million shillings, needs to be enhanced so that it enables customers in this group to feel more involved in the direction of the company without directly influencing it. That is to say that Standard Chartered Bank should work towards developing partnerships with these kinds of customers. Efforts should be made to visit these customers and not just wait for them to come.

- For customers with accounts exceeding 10million shillings, the company should engage an accountable and proactive marketing approach. That is to say that the company should

check on these customers and actively contact them about new product uses and helpful new products.

- For customers with less than 1million Standard Chartered Bank should make use of a reactive marketing approach, that is to say, that the customer is simply encouraged to call if there are any questions, comments, or complaints.
- Focused marketing approaches cut down costs because they direct them only where they will be recover

Development of a Customer Database

SCB should put in place a database system that enables it to register more information about its customer. Paramount is the need to be able to trace customer defection, attrition and fluctuations in account sizes. It is critical that the bank know customer's intention to defect in advance of account closure. This may entail the extension of service support systems onto the net, especially for corporate and 'high net-worth customers'.

5.2.2 Recommendations to Regulatory Bodies

Although this microeconomic analysis of customer retention indicators garners more benefits to SCB than the regulatory bodies concerned, but this research brings to surface several issues that need to be properly or adequately promoted by them. The regulatory bodies concerned should encourage the implementation of service quality management.

From a macro economic perspective customer retention applies, as the world is a global village where all producers compete against irrespective of location. The key indicator in this regard is likewise satisfaction. This can be can be achieved promoting Total Quality Management Awards. This also helps banks like Standard Chartered justify investing more in service quality management to its shareholder, who would otherwise view it to be less beneficial to wealth maximization. By monitoring these indicators, the regulatory bodies concerned will be better positioned to set policies that benefit all Tanzanians.

5.3 Direction for Future Research

Despite the interesting findings and implications that emerge from this research, it is important to recognize its limitations and the need for additional research. This research used a 'univariate' approach that analyses the results of one variable (satisfaction) and was based on external customers only. Research in the future should:

- Including a preliminary survey to identify the specific areas that customers use to measure satisfaction, unlike the arbitrarily chosen areas of interpersonal communication, service performance and complaint handling (picked from unrelated researches)
- Tracing the relationship between the satisfaction level and the likelihood to leave the bank, as this would expose a more accurate depiction of the customer retention indicators.
- Including internal customers in order to validate the relationship that internal customer satisfaction levels have on external customer's satisfaction

These three considerations would result in a more comprehensive research

5.4 Conclusion

Satisfaction levels of customers have been found to be less than 'highly satisfactory', which is in accordance to the research hypotheses and provides an indication that improvements in the areas of interpersonal communication, service performance and complaint handling are likely to increase customer retention at the bank.

Standard Chartered has benefited greatly from its position as pioneer Foreign Bank, providing quality services in a Tanzania that was at the time embattled with a deteriorating commercial banking sector. The unique 'high net worth' individual and corporate customer portfolio that Standard Chartered Bank has thus far developed may be greatly attributed to this and not necessarily its superior service offering in particular (as 40% of the customers joined because of recommendations alone).

This indicates that 40% of Standard Chartered Bank market appeal is resulting from referrals, which puts emphasis on the essence of the results of these customer retention indicators. That is to say that Standard Chartered Bank has a strong image and market presence attributed greatly to its clientele base. In order to consolidate its role as 'banking service quality' leader, it has to improve interpersonal communication, service performance, and complaint handling as a means of offering services that meet customers' high expectations so as to improve satisfaction levels and as a result retain the customers that make a market leader.

This research presents recommendations in line with this; it is then pertinent that any service quality initiative be supported by all members of the bank and must evolve around the customers (existing and potential) and their expectations.

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APPENDICES
APPENDIX 1 – QUESTIONNAIRE 1

Questionnaire for Standard Chartered Bank Target Customers

Thank you for taking the time to share with us views that are intended to improve the relationship Standard

Chartered Bank is building with you.

NOTE: The term *Standard Chartered Bank* will be used interchangeably with *SCB*.

Serial Number: _____   **Branch:** _____

Gender: __ Male   __ Female   **Age:** __ 18-34   __ 35-54   __ 55+

Age of Account (in years): __ <2   __ 2-5   __ 5+

Size of Account (in Tshs): __ <1mill   __ 1-10mill   __ 10mill+

Type of account: __ Personal   __ Business   __ Corporate

I General

Identify the most important reason for joining Standard Chartered Bank by ticking one:

__ The only bank I knew

__ Recommendation from a friend/ work mate/ employee of SCB

__ Superior service

__ Other (*mention*)

Have you convinced others to open accounts with SCB?

__ Yes __ No

Mention the number of those you have convinced: __

Identify 2 things that are most likely to make you stop banking with Standard Chartered Bank.

1.

2.

II Indicate level of satisfaction with Interpersonal Communication by Staff

	Not Satisfied	Lowly Satisfied	Satisfied	Highly Satisfied
Friendliness towards customers				
Level of interest when listening to customer needs				
Reliability of information made available on services				
Availability of information when needed				

III Indicate level of satisfaction with Service Performance at SCB

	Not Satisfied	Lowly Satisfied	Satisfied	Highly Satisfied
Service reliability				
Deposit security				
Services available				
Location of services				

IV Indicate level of satisfaction with Complaint Handling at SCB

	Not Satisfied	Lowly Satisfied	Satisfied	Highly Satisfied
Fairness of results				
Reason(s) given for problem				
Time taken				
Process used				

V Awareness of Competition

Do you take notice of Standard Chartered Bank's competitors? __Yes __No

If so, identify the 2 competitors you take most notice of:

1.

2.

Give the two the most important reasons for taking notice of these competitors:

1.

2.

VI Bank Values

Are you aware of the values that Standard Chartered Bank is presently promoting?

__ Yes __ No

Indicate the level of agreement with the following:

	I don't agree	I lowly agree	I agree	I highly agree
The staff here are responsive				
The staff here are courageous				
The staff here are creative				
The staff here are trustworthy				
The services here are international				

APPENDIX 2 – QUESTIONNAIRE 2
QUESTIONNAIRE TO STANDARD CHARTERED BANK MANAGEMENT

The following questionnaire is intended to help the researcher acquire information on the current situation with regards to the company's current state of customer understanding. Management-level personnel of Standard Chartered Bank both at Head Office and branch level may fill this questionnaire.

Note: Where relevant documents should be attached.

Name: _____

Department/ Title: _____

Head Office/Branch Level: _____

Background

- Information on the background of the firm
- Information on the structure of the firm (departments, responsibilities........)
- Information on the mission, philosophy, purpose, objectives
- Information on marketing with special emphasis on customer service goals and programs/ activities
- Information on main competitors & their profiles (if available) in terms of strengths, weaknesses, opportunities and threats provided by programs, products and services offered.

I General

- What is the number of account holders with Standard Chartered Bank in Tanzania according to value of account for the past 3 years?
- (Preferred categories: less than 1mill, between 1&10mill, above 10mill)
- What is the number of account holders with Standard Chartered Bank in Tanzania according to age of account for the past 3 years?
- (Preferred categories: less than 3years, between 3&5years, above 10years)
- What is the number of account holders with Standard Chartered Bank in Tanzania according to types of accounts for the past three years?
- (Preferred categories: personal, business, corporate)

- How long does an average customer stay with Standard Chartered Bank?
- What is the average cost of attracting a new customer at present at Standard Chartered Bank (specify the different cost categories)?
- What is the average cost of maintaining a customer at present at Standard Chartered Bank (specify the different cost categories)?
- What is the profit margin for an average customer at Standard Chartered Bank?
- What is the number of accounts closed for the past 3 years according to types of accounts at Standard Chartered Bank (personal, business, corporate)?
- What is the number of accounts opened for the past 3 years according to types of accounts (personal, business, corporate)?

II Change Reception

What are senior management's highest priorities (rate the following objectives, where 1 is the highest
priority and 7 is the lowest priority)?

__ maximizing short term profit

__ Rapid growth or expansion

__ holding line against competition

__ Creating value and customer satisfaction

__ Cost Reduction

__ Increasing revenue

__ Other (specify)

How would you describe the Standard Chartered Bank's quality image in the market (tick one):

__ High quality image

__ Average quality image

__ Low quality image

__ No notable quality image

How would you describe employee turnover at Standard Chartered Bank, if possible specify (tick one):

__ High

__ Average

__ Low

__ Not an issue of concern

How are employees motivated/ rewarded in relation to customer retention?

1.

2.

3.

What are the main reasons given by employees who leave?

1.

2.

3.

Does Standard Chartered Bank budget explicitly for customer retention?

__Yes __No

If so how?

1.

2.

3.

III Service Quality and Satisfaction

What are the customer satisfaction and quality improvement objectives of Standard Chartered Bank?

1.

2.

3.

Does SCB regularly survey customers about our service quality?

__Yes __No

What methods does SCB use to register such views?

1.

2.

3.

Are employees trained to recognize "natural" feedback from customers?

__ Yes __ No

Are there explicit standards set for customer-contact points such as:

Complaint handling __Yes __No

Telephone answering __Yes __No

Written communication __Yes __No

Waiting time in queues __Yes __No

If yes, how are these standards monitored?

IV Data Research

Does SCB maintain a customer database? __Yes __No

How does SCB calculate its Life Time Value – LTV of its customers?

What are the signs for SCB that its customers are leaving?

1.

2.

3.

Can your database system detect that customers are defecting?

__Yes __No

What are the main reasons for customers to leave SCB?

1.

2.

V Competition

Does SCB continuously and systematically study its competition?

__Yes __No

Who are your main competitors?

1.

2.

3.

How do you compare to your competitors based on the following:

Interpersonal communication __Better __Worse __Equal

Service performance __Better __Worse __Equal

Support service provision __Better __Worse __Equal

Complaint handling __Better __Worse __Equal

What are the relative strengths and weaknesses of your competitors?

Competitor Strength Weakness

1.

2.

3.

VI High Value Customers

How does SCB identify its high value customers?

Can employees identify who high value customers are?

__Yes __No

Do high value customers receive the following special privileges?

Advance notice on promotion __Yes __No

Advance notice on new products __Yes __No

Easy access to top management __Yes __No

Any other: _____

APPENDIX 3 TIME FRAME

From June to Aug	Collection of Data.
From Aug to September	Finalizing on Chapter 1, 2, and Chapter 3.
First Week of September	Visit Vodacom Tanzania to collect more Data.
First Week of October	Submission of Final Project

APPENDIX 4 BUDGET

Item	Quantity	Unit cost	Cost
Transport costs	-	-	150,000/=
Photocopy			50,000/=
Typing /Printing			100,000/=
Meal			50,000/=
Flash Disk	1	25000	25.000/=
Paper	3 reams	8000	24,000/=
Internet Fees/ Airtime			100,000/=
Miscellaneous			100,000/=
Total Cost			**599,000/=**