

## **CUSTOMER TRUST AND PERFORMANCE OF COMMERCIAL BANKS IN KERUGOYA TOWNSHIP IN KENYA**

<sup>1\*</sup> **Kimuyu Stephen Muthama**  
skimuyu89@gmail.com

<sup>2\*\*</sup> **Doris Mbugua**  
dvmbugua@jkuat.ac.ke

<sup>1, 2</sup> *College of Human Resource and Development, Jomo Kenyatta University of Agriculture and Technology, Kenya*

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**Abstract:** *The increasing competitiveness in the business environment has led to increased interest in relationship marketing in the banking industry. Creation of customer trust has enabled organizations to keep a long-term relationship with their customers through unique focus on their specific interests. Despite this, there is little specific information on the link between customer trust and performance of commercial banks. The study therefore addressed the gap by establishing the role of customer trust in influencing the performance of commercial banks in Kerugoya Township. The study was guided by commitment-trust theory. The study population comprised of seven commercial banks operating in Kerugoya Township. The unit of observation comprised both customers of the banks under study and heads of marketing and customer service departments of respective banks. Heads of marketing and customer service departments of respective banks were purposively included in the study while Yamane sampling formula was used to derive a sample of 207 customers making a total sample of 235 respondents. Both primary and secondary data was utilized in the study where primary data was collected through questionnaire while a secondary data collection sheet was used in collecting secondary data. The collected data was analysed quantitatively through both descriptive and inferential statistics. Tables and figures were used in displaying the results of the study. Prior data collection, a pilot study was conducted to test the validity and reliability of data collection instruments. The results of the study established that customer trust affects the performances of commercial banks operating in Kerugoya Township as shown by beta values of 0.216. This bears the implications that enhancing the aspects of customer trust focus leads to increased performance levels of the commercial banks. The study recommends the need of enhancing aspects of customer trust since the practice bears a positive and significant effect on performance of the commercial banks.*

**Keywords:** *Customer Trust, Commercial Banks, Increased Performance*

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### **Background to the Study**

Banks are without doubt a fundamental driver of the economy (Kanti & Dixit, 2014). Banks offer credit financing to their clients hence making it possible for them to invest the borrowed money in profitable ventures. Besides that, savings that are made by customers are converted into deposits. Other than that, banks advice their clients on feasible investments and also engage in business with the goal of creating employment thus bettering the lives of the citizenry. The scope of banks services is not only limited to credit financing as they are actively involved in government projects through public private partnerships (PPPs). The increasing

competitiveness in the business environment has led to increased interest in customer relationship management among managers (Karr, 2012). Emphasis has been on ensuring that bank maintain a long-term relationship with clients through special focus on clients' needs (Karr, 2012). This has in turn made it possible for banks to appreciate the value of its clients (Adiele & Gabriel, 2013). In fact, the environment in which banks operate is becoming stiff by the day as managers of marketing firms are laying more emphasis on long-term profitability and attaining customer loyalty as opposed to only offering quality products/ services (Tseng & Wu, 2014). As such, to ensure the continual survival of the firms, marketers are shifting their focus from the conventional focus on Product, Price, Place and Promotion in an attempt to remain competitive and establish long-term relationship with their customers (Karr, 2012).

In the United States of America, practitioners and scholars in marketing have capitalized on relationship marketing aspects such as customer focus especially in aspects such as distribution channels whereby the relationship with clients has been of utmost importance. Therefore, in spite of the recent rise in prominence of relationship management, bank managers have always been in the forefront in strengthening business relationships with their clients by ensuring that their interests are given the first priority (Hennig-Thurau, & Hansen, 2013). Nevertheless, the rate of theoretical development has surpassed the empirical testing on the different dimensions of RM hence there are still aspects of RM that are yet to be uncovered (Ampoful, 2012). What is clear though is that customer relationships transcend both regional and national boundaries with the key stakeholders globally. In the case of Nigeria, competition has been stiff in the banking industry hence necessitating managers to actively engage in creating a close relationship with their clients by establishing a section on Customer Care. This has made it possible to address all clients' complaints and compliments such that the bulk of the customers have value for their money. In turn, customer loyalty has been enhanced, the relationship of the bank and clients has been strengthened leading to customer retention and high profitability levels. Customer focus is particularly important because it enhances customer loyalty and provides a foundation for increasing competitiveness in the banking sector. Consequently, trust is built and the overall performance is improved (Woodcock, Foss & Stone, 2015).

In Kenya, the major banking players specifically Equity Bank, National Bank of Kenya, Kenya Commercial Bank, National Bank of Kenya and Barclays Bank of Kenya account for the 60% of all deposits. They also account for 60% of the credit volumes and they control two-thirds of the bank branches. In the last two decades, the banking industry has grown tremendously in terms of total assets and liabilities. In fact, the assets closed at Ksh 2.3 trillion as of 2012. There has also been exponential growth rate in the sector. In most cases, it is five times costly to acquire new clients as opposed to maintain the existing clients (Kotler & Armstrong, 2016). The key objective of customer focus is to retain customers, increase the profitability levels hence improving organizational performance. The manner in which the firm offers its services to the clients is of essence in measuring the service level and ascertaining the loyalty of customers. Keshvari and Zare (2012) view customer focus as a long-term plan intended to nurture the interactions the firm has with its customers with the goal of enhancing the sales volume. As such, there is promotion of loyalty and long-term engagement with customers through the provision of information that is best suited to their specific interests with no barriers in communication. The end result is that the clients engage in repeat businesses such that they make efforts in providing information on their specific needs and interests to the firm. Consequently, effective customer focus practices makes it possible for marketers to get new clients, maintain them, enhance client profitability and ultimately elicit customer loyalty (Adiele & Gabriel, 2013).

## **Customer Trust and Organizational Performance**

Morgan and Hunt (2014) define trust as the willingness by a person or party to rely on another person or party whom they believe and confide in. They observe that customers need businesses or organizations they can fully trust to qualify as suppliers for life which is a true measure of customer loyalty (Moorman et al, 2012). If due to unavoidable circumstances they lose the supplier, they would be grieved and saddened. Customer trust is without doubt fundamental in the provision of services because of its intangibility and technicality aspect (Parmar, 2015). As earlier discussed, the theory on commitment- trust argues that relationship marketing encompasses both the development and sustainability of successful relational exchanges. The concept of relationship marketing is in itself a shift from the marketing theory and practice. There are ten forms into which relationship marketing is conceptualized. These are; credibility, courtesy, competence, customer understanding, responsiveness, security, tangibility and reliability. Consequently, for relationship marketing to be successful there is need to incorporate both commitment and trust. Therefore, the mediator variables are both commitment and trust. Thorelli (2016) further postulated that the theory is based on the political economy model. It is argued that there are multiple contextual variables that either contribute to the success or failure of marketing attempts. However, the inclusion of both commitment and trust are indeed essential to successful marketing efforts as opposed to the use of influence to “condition others”. The reason for this is that both commitment and trust motivate marketers to invest in the relationship by deepening the interactions with the exchange partners, focusing on long-term alternatives and engaging in high-risk actions since they trust their partners would not be opportunistic in nature. Evidently, there is promotion of effectiveness, efficiency and high productivity levels with the incorporation of both commitment and trust.

### **Statement of the Problem**

The need to keep hold of the already available customers led to managers in banks looking for customer focus to retain bank customers. Previous studies showed that customer focus had helped banks to hold on to their available customer’s and keep up with profitability (Reichheld & Sasser, 2012). However, some people like Laura (2015) insist that Kenyan banks still have problems with retention of customers even with the implementation of customer focus. These banks lose customers to new banks because they do not have better strategies of enhancing customer loyalty. Other scholars like Huber & O’Gorman (2018) explain that the relationship of customer retention and bank success cannot be quantified or be given a definite direction. They posit that it all depends with the practicing bank. Heskett, Sasser and Hart (2017) on the other hand noted that, to satisfy customers, a high level of customer orientation and service quality is vital lest the desires of adoption of relationship marketing would not be achieved.

Few banks in Kenya have shown a little improvement in customer retention and customer focus. In other areas though, customer focus has borne fruits, a result that is significantly different from the Kenyan scenario. There is broad literature on customer focus. Particularly, Kimani (2013) delved into the nexus between customer relationship and the performance of firms in manufacturing sector. The author established that majority of the firms do not fully comprehend the concept of customer focus. As well, Moyi (2014) in an analysis of the customer relationship strategies of supermarkets in Kenya concluded that there is little specific information on customer focus among majority of organizations. A study by Maina (2016) focused on how relationship marketing contributes to competitive advantage of firm in the health sector. This study focused on a different concept which is competitive advantage while the focus of the current study is performance. A study by Nyongesa (2018) revolved on how social performance management, relationship marketing and firm’s IT characteristics influence retention of customers in Kenya micro financial institutions.

### **General Objective of the Study**

The general objective is to establish the effect of customer trust on performance of commercial banks in Kerugoya Township.

### **RESEARCH METHODOLOGY**

The current study adopted a descriptive research design. The research design was appropriate for this study because it enabled the researcher in gathering information and make summary of present and interpret data for clarification (Orodho, 2010). According to Mugenda and Mugenda (2013), a descriptive research design reports the particulars of a case by investigating the characteristics, possible behaviors, values and attitudes of the subjects of the study. Descriptive research is used to provide accurate and real representation of the variables that were being studied (Creswell, 2014). The design is appropriate for this study because it helped the researcher to analytically describe attitudes (Bryman, 2015). It also helped the researcher to determine how variables relate (Dunn, 2010).

The target population in this study comprised of seven commercial banks operating in Kerugoya Township. The unit of observation comprised of both customers of the banks under study and heads of marketing and customer service departments of respective banks. The study applied Yamane (1967) sampling formula to develop the sample size of the customers of the study.

Descriptive statistics such as percentages, means and standard deviation was used to analyze quantitative data and results presented in form of pie charts, graphs and frequency tables. Inferential statistics (regression and correlation) was used to determine the degree of association on independent and dependent variables. Data analysis was done by the use of Statistical Package for Social Sciences (SPSS) program. The program was also used to refine data using a multiple regression analysis that showed how dependent and independent variables relates. The model for this study is as illustrated below:

$$Y = a + \beta_1 X_1 + \varepsilon$$

Where:

Y = Organizational Performance

X<sub>1</sub> = Customer trust

α=regression coefficient (constant)

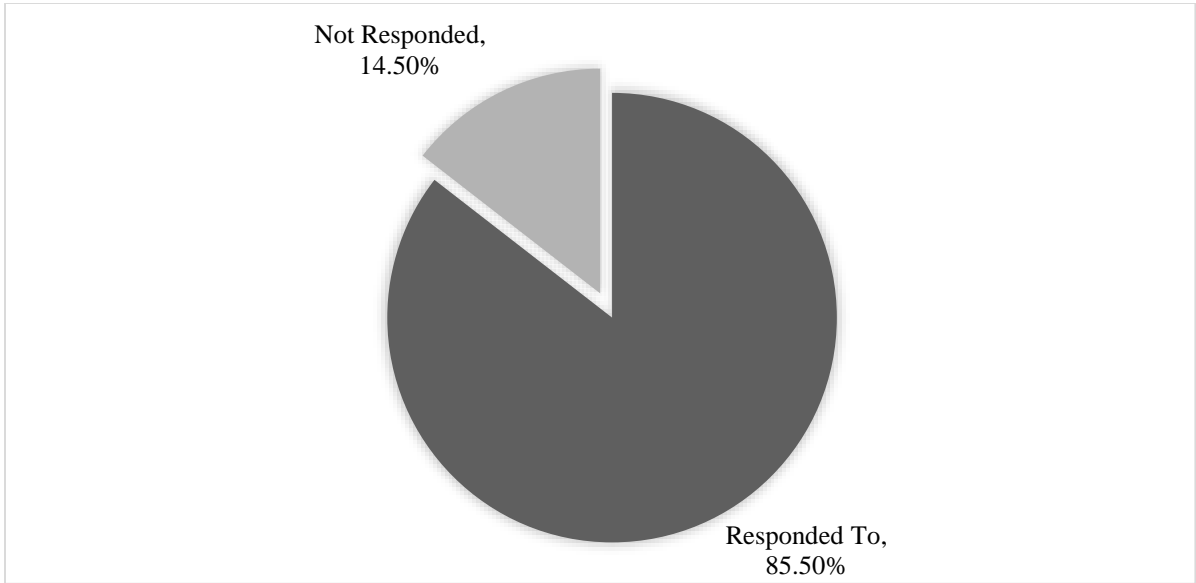
β<sub>1</sub>= coefficient of various independent variables

ε =error term

### **RESULTS**

#### **Response Rate**

The study issued 235 questionnaires to the target respondents comprising of employees from Marketing Department, Customer Service Department and Bank Customers. 201 questionnaires were filled and returned. This accounted for 85.5% response rate which was considered appropriate, sufficient and adequate for analysis. The appropriateness of the response rate is supported by assertions from Mugenda and Mugenda (2013) who noted that a response rate of 70% and above is very good for analysis. A close follow up and constant reminders through phone calls contributed to the high response rate. Figure 1 presents the response rate.



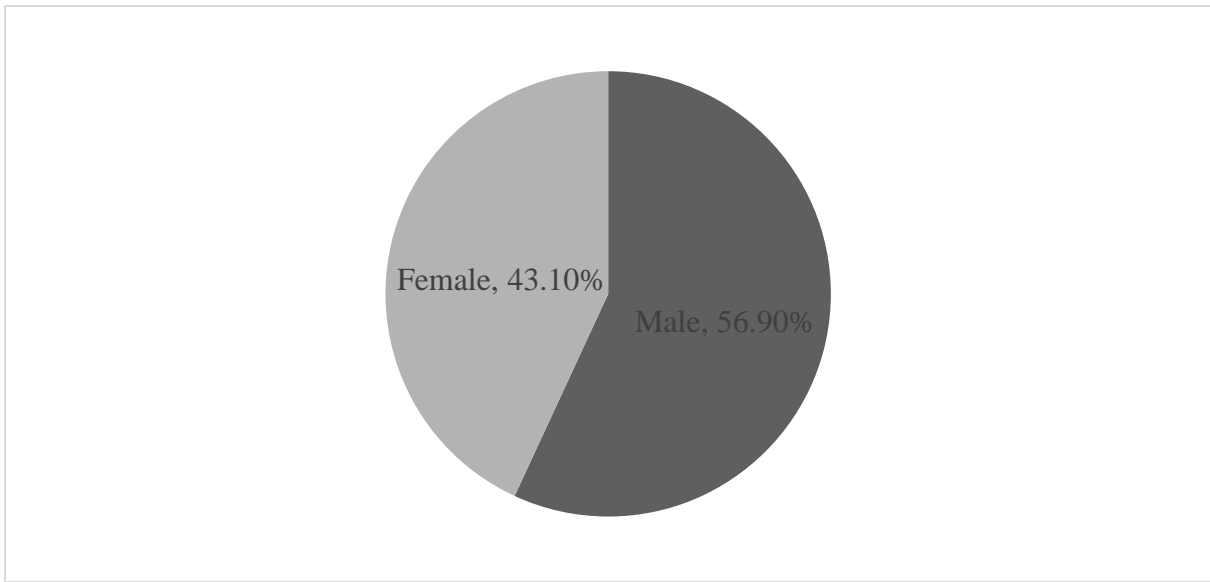
**Figure 1: Response Rate**

**Source: Research Data (2022)**

**Demographic Characteristics**

**Gender**

The results of gender of respondents presented in figure 2 shows that 56.9% of respondents were male while females accounted for 43.1%. The results implied that majority of respondents were males. However, both male and female were well represented in the study thus no problem of gender bias.

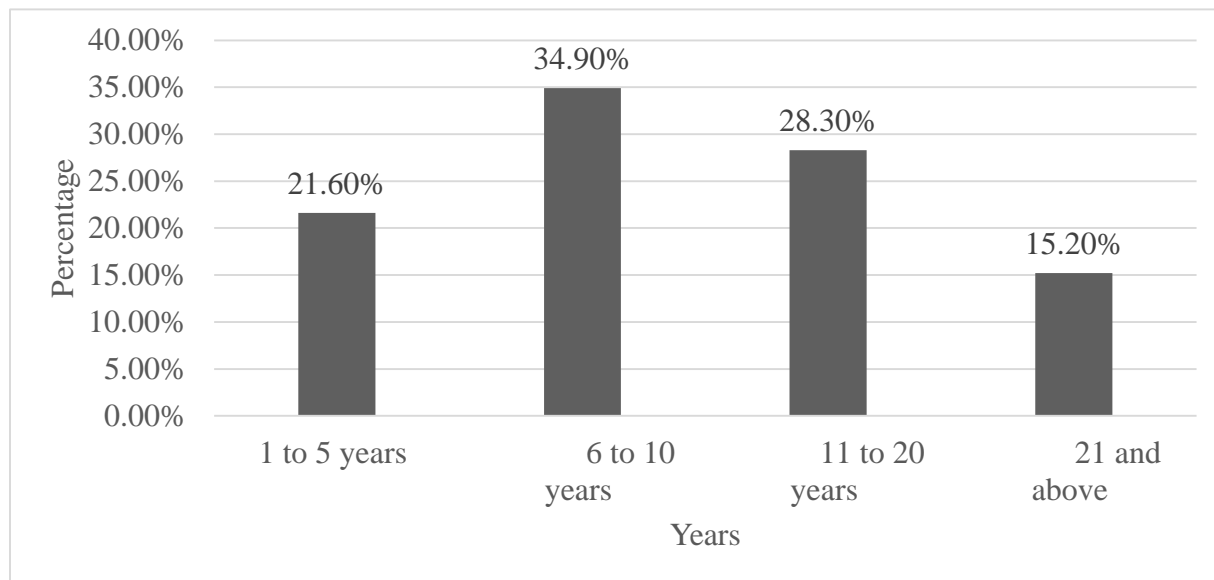


**Figure 2: Gender of Respondents**

**Source: Research Data (2022)**

**Respondents Years with the Bank**

The results on the number of years the respondents had banked with the commercial bank presented in figure 3 shows that 21.6% had been with the bank for between 1 and 5 years, 34.9% between 6 and 10 years, 28.3% between 11 and 20 years while those who had been with the bank for more than 21 years accounted for 15.2%. The results shows that majority of the respondents had banked with their respective commercial banks for more than 6 years thus in a position of understanding the marketing management practices adopted by the commercial banks.

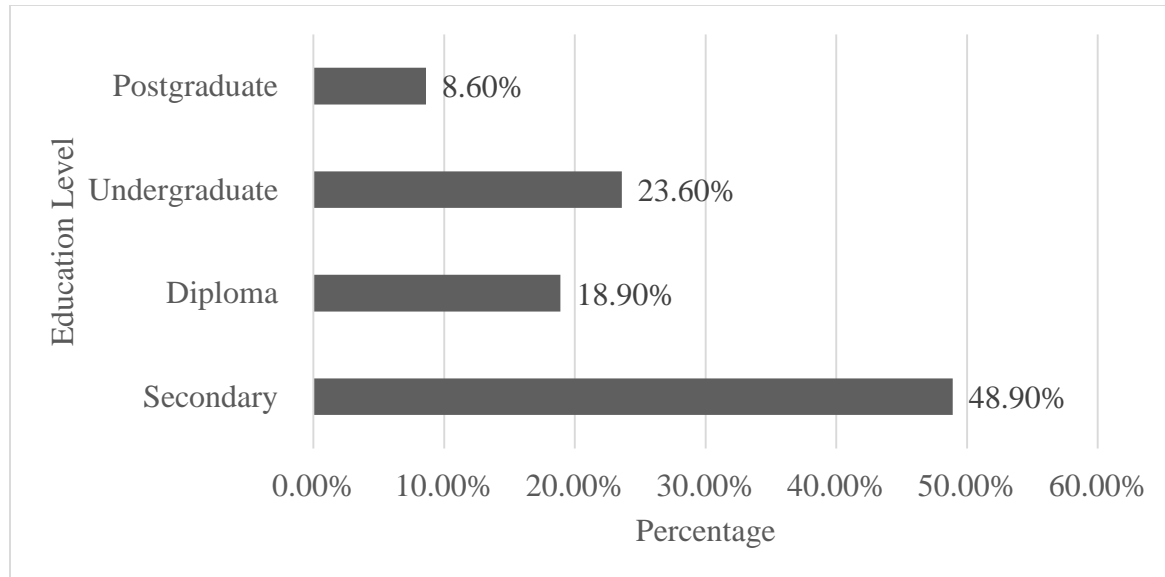


**Figure 3: Respondents Years with the Bank**

**Source: Research Data (2022)**

### **Highest Level of Education**

The results on the highest level of education of the respondents outlined in figure 4 shows that postgraduates accounted for 8.6%, undergraduates were 23.6%, Diploma holders were 18.9% while those with secondary school level of education accounted for 48.9%. The results show that all the respondents were educated thus in a position of reading, understanding and responding appropriately to the contents of the questionnaire.



**Figure 4: Highest Level of Education**

**Source: Research Data (2022)**

### **Descriptive Results**

The current study adopted means and standard deviation in presenting the descriptive findings of the study. In generating the statistics, the study adopted the following criteria; the statements contained in each of the variable of the study were rated in a scale of 1-5 where 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree and 5= Strongly Agree. The respondents were requested to rate their level of agreement on the statements. The average response per statement and average standard deviation was then used in reaching to conclusion. The results are presented in the following subsection:

### **Customer trust**

The study objective sought to examine the effect of customer trust on the performance of commercial banks in Kerugoya Township, Kenya. The results on respondents' level of agreement with the statements on customer trust outlined in table 1 shows that respondents were in agreement with the statements that the bank provides all the information the customers need(mean=3.98), that most of the customers tend to recommend others(mean=3.67), that the bank treats its customers in an honest way in every transaction(mean=4.01), that customers are confident of the services provided (mean=3.71) and that there is no abuse of savings(mean=3.91). On the contrary, respondents were neutral on the statements that majority of our customers use online payment (mean=3.27) and that the bank respond to customers complaints with urgency (mean=2.43). An average response rate of 3.57 and average std.dev of 0.912 shows that all respondents were in agreement with statements on customer focus. The results tallies with Moorman *et al.*, (2012) that customers need businesses or organizations they can fully trust to qualify as suppliers for life which is a true measure of customer loyalty.

**Table 1: Descriptive Statistics on Customer Trust**

<b>Customer Trust</b>	<b>Mean</b>	<b>Std.Dev</b>
The bank provides all the information the customers need	3.98	0.905
Majority of our customers use online payment	3.27	1.014
We respond to our customer complaints with urgency	2.43	1.026
Most of the customers tend to recommends others	3.67	0.721
The bank treats its customers in an honest way in every transaction	4.01	0.638
Our customers are confident of the services provided	3.71	1.073
There is no abuse of savings	3.91	1.009
<b>Average</b>	<b>3.57</b>	<b>0.912</b>

**Source: Research Data (2022)**

**Performance of Commercial Banks**

The study sought to assess the performances of commercial banks. In the first aspect of performance, respondents were requested to indicate their level of agreement with statements on performance. The results outlined in table 2 shows that respondents agreed with the statements that the sales volumes continue to grow as per set objectives (mean=4.23), that the sales volumes have continued to grow in comparison with our close competitors (mean=4.11), that the levels of profits have continued to rise in line with our goals and in comparison, with our competitors (mean=4.41) and that the market size has increased in new markets in comparison with our close competitors(mean=4.22). All respondents agreed with the statements on performance of commercial banks as shown by average response mean of 4.24 and average standard deviation of 0.385. The results are in tandem with Ampoful (2012) who noted that the incorporation of relationship marketing in a firm offers a wide array of benefits which are not limited to cutting down on the costs in marketing, enhancing customer satisfaction and loyalty and eventually increasing the retention of clients.

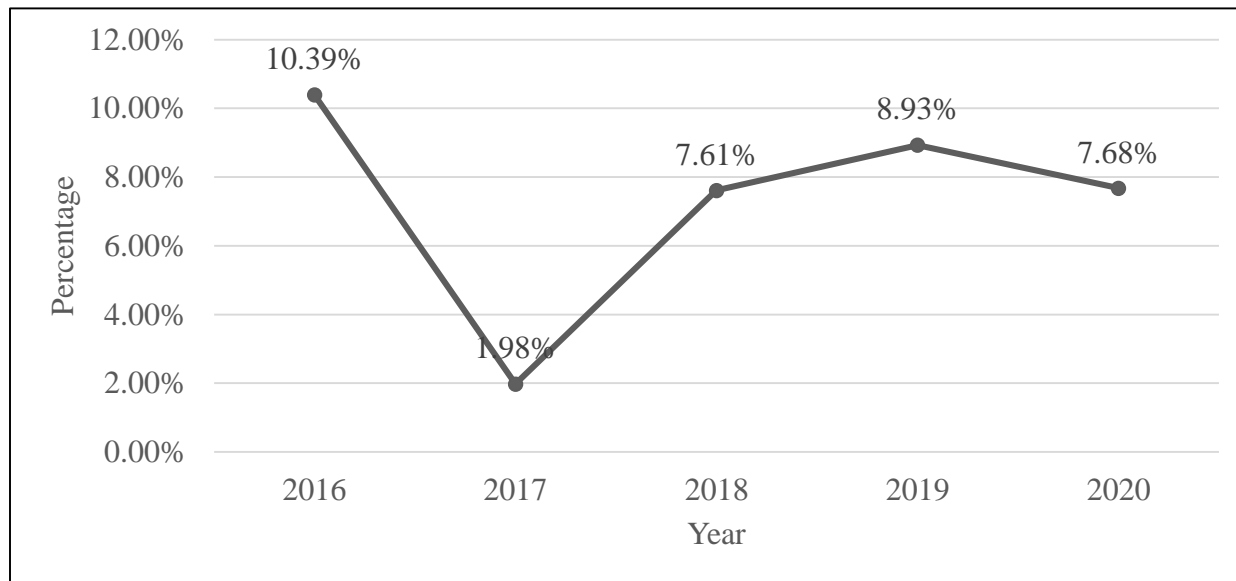
**Table 2: Descriptive Statistics on Performance of Commercial Banks**

<b>Performance of Commercial Banks</b>	<b>Mean</b>	<b>Std.Dev</b>
Our sales volumes continue to grow as per set objectives	4.23	0.321
Our sales volumes have continued to grow in comparison with our close competitors	4.11	0.438
Our levels of profits have continued to rise in line with our goals and in comparison with our competitors	4.41	0.373
Our market size has increased in new markets in comparison with our close competitors	4.22	0.409
<b>Average</b>	<b>4.24</b>	<b>0.385</b>

**Source: Research Data (2022)**



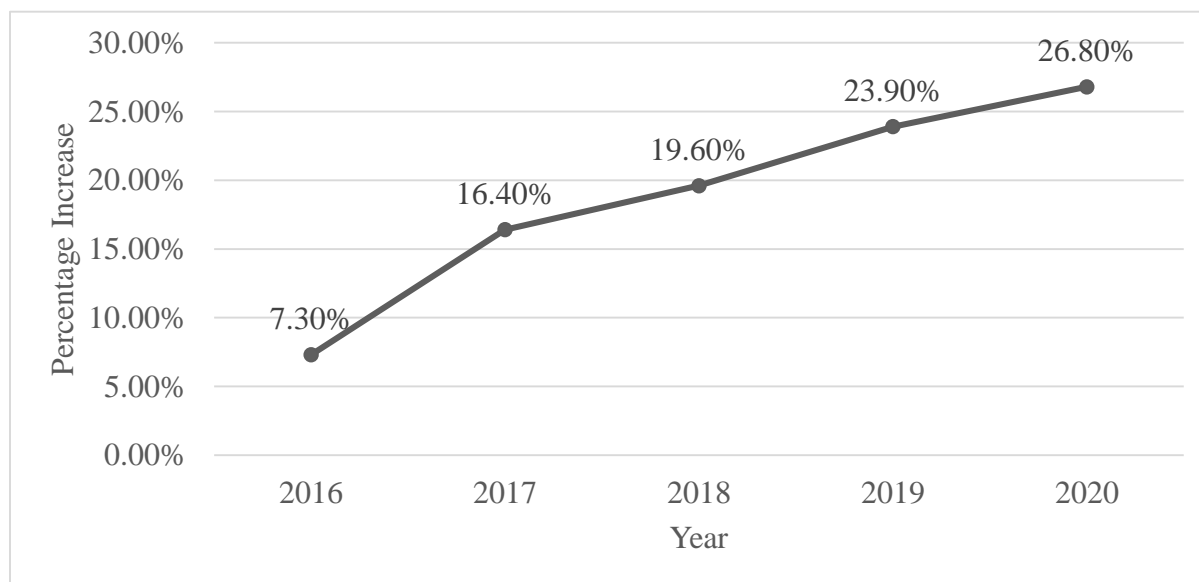
The second aspect of performance of commercial bank was assessed through Return on Equity for the period between 2016 and 2020. The results presented in figure 5 shows that between 2016 and 2020, the highest return on equity amongst the commercial banks was recorded in 2016 with the lowest recorded in 2017. The trend analysis results generally shows variations in the levels of ROE attained by the commercial banks considered in the study.



**Figure 5: Return on Equity**

**Source: Research Data (2022)**

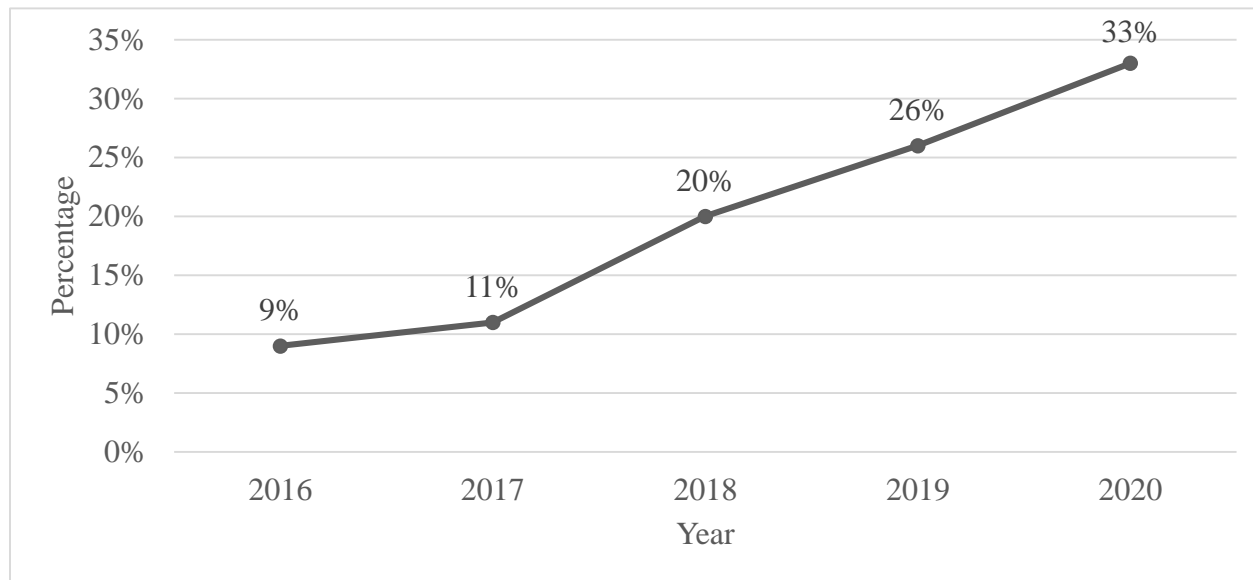
The study further assessed the percentage change in the number of new customers from 2016 to 2020. The results outlined in figure 6 shows that the commercial banks involved in the study have been recording an increase in the number of customers for the five years considered in the study. The results implies that majority of customers have trust in the commercial banks.



**Figure 6: Percentage Change in Number of Customers**

**Source: Research Data (2022)**

The results on customer retention rates outlined in figure 8 shows that between 2016 and 2017, the commercial banks have been in a position of retaining customers. This can be attributed to the fact that the commercial have continued to come up with strategies that ensures there is customer satisfaction on the services and products offered by the bank.



**Figure 7 Customer Retention Rates**

**Source: Research Data (2022)**

**Inferential Statistics**

**Correlation Results**

The results of the correlation analysis presented in table 3 shows that customer trust and performance of commercial banks operating in Kerugoya Township correlates to a positive and significant levels( $r=0.106, sig=0.012$ ). The results bear the implications that enhancing the aspects of customer trust in the operations of the commercial banks leads to enhanced performance levels of the bank. The results tallies with Moorman *et al.*, (2012) that customers need businesses or organizations they can fully trust to qualify as suppliers for life which is a true measure of customer loyalty.

**Table: 3: Correlation Analysis**

	Customer Trust	Performance
<b>Customer Trust</b>	Pearson Correlation 1	
	Sig. (2-tailed)	
<b>Performance</b>	Pearson Correlation 0.106*	1
	Sig. (2-tailed) 0.012	
	N 201	201

**Source: Research Data (2022)**

**Multiple Regression Analysis**

The study conducted a multiple regression analysis seeking to assess the extent to which independent variable relates with dependent variable and to evaluate the percentage accounted by the independent variables on the dependent variable. The analysis was conducted at 95% confident level. The results presented in table 4 shows that independent variables comprising of customer trust bears a moderately high relationship with performance of commercial banks. This is shown by R-value of 0.795. The R-squared value representing the coefficient of determination shows that 63.2% of performances of commercial banks operating in Kerugoya Township can be attributed to customer trust.

**Table 4: Model Summary**

R	R Square	Adjusted R Square	Std. Error of the Estimate
.795 <sup>a</sup>	0.632	0.593	1.013713

a. Predictors: (Constant), Customer Trust

**Source: Research Data (2022)**

The analysis of variance (ANOVA) was included in the study to assess whether the model connecting Customer Trust with performance of commercial banks in Kerugoya Township was statistically significant. The results presented in table 5 shows that the significant value was 0.0093 which was less than 0.05 implying that the model was statistically significant.

**Table 5: ANOVA (Model Significance)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	89.785	4	22.4463	29.4637284	0.0093 <sup>b</sup>
	Residual	149.318	196	0.76183		
	Total	239.103	200			

a. Dependent Variable: Performance

b. Predictors: (Constant), Customer Trust

**Source: Research Data (2022)**

The model coefficient results outlined in table 6 shows a positive and significant effect of customer trust on performance of commercial banks operating in Kerugoya Township (beta value=0.216, sig value=0.01<0.05). The results imply that increasing the levels of customer focus with one unit results to 0.216 units increase in performance level of commercial banks operating in Kerugoya Township. The results concurs with Peltier, Zahay and Lehmann (2013) who established that relationship marketing practices incorporated in the business daily operations as a means of gaining customer behaviour insights, helping the business in understanding customer values as well as in making changes in the ways and means the businesses approach their customer relationships.

**Table 6: Model Coefficients**

Predictors	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	1.013	0.175		5.78857	0.016
Customer Trust	0.216	0.219	0.099	0.197	0.010

**Source: Research Data (2022)**

The regression model of the study becomes:

**Performance of Commercial Banks = 1.013+ 0.487 (Customer Focus)**

**Conclusion**

The study’s findings led to conclusions that customer trust affects performance of commercial banks in Kerugoya Township to a positive and significant level. Remarkably customer trust aspects such as providing all the information the customers need, responding to our customer complaints with urgency, treating customers in an honest way in every transaction and not abusing of customers savings bears a positive and significant effect on performance levels of commercial banks operating in Kerugoya Township.

**Recommendations**

The study recommends the need of enhancing aspects of customer trust amongst commercial banks operating in Kerugoya Township since the practice bears a positive and significant effect on performance of the commercial banks. This can be realized through practices such as providing all the information the customers need, responding to our customer complaints with urgency, treating customers in an honest way in every transaction and not abusing of customers savings.

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