INFLUENCE OF CORPORATE CULTURE ON CUSTOMER SEGMENTATION STRATEGY AMONG COMMERCIAL BANKS IN KENYA

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Abstract: **This research paper sought to investigate the influence of corporate culture on customer segmentation strategy among commercial banks in Kenya. The study employed a quasi-experimental posttest research design. A census survey was conducted among 43 commercial banks in Kenya, where the study population consisted of four senior managers from each bank's head-office in Nairobi capital city of Kenya. The findings of this study were that corporate culture directly influences banks' customer segmentation strategy formulation and implementation. Thus, according to R^2 corporate culture contributes upto 46.9% of the variations in customer segmentation strategy execution. In conclusion therefore, management of banks have to embrace all the four types of corporate culture (clan culture, adhocracy culture, market culture and hierarchy culture)that provide direction and focus towards accurate execution of business strategies. Since culture is dynamic, the researcher recommends that top management should be role models in building strong corporate culture that contribute to sustainability of their firms on the market.**

Keywords: **Corporate culture, clan culture, adhocracy culture, market culture and hierarchy culture, customer segmentation strategy.**

1. INTRODUCTION

Carneta, Farina & Schwizer (2006) assert that corporate culture refers to the set of values and behavior in which an organization undertakes its day-to-day activities. They further argue that corporate culture can be considered to be informal, control tool, based on social mechanisms and also formal control, which requires behavioral rules, codified procedures and organizational routines. They also agree that corporate culture is likely to enhance effectiveness in the allocation of firm resources, owing to a few key elements that succeed in addressing individual efforts towards common goals. Janicijevic (2012) defines corporate culture as shared beliefs, norms and values within an organization that sets the foundation for strategy formulation and implementation. He urgues that for a strategy to develop and be fully implemented, it must be aligned with corporate culture. Several studies conducted on the influence of corporate culture on firm performance, have revealed that corporate culture has strong and positive correlation on firm performance (Nyamongo & Temesgen, 2013; Cook, 2008;Ugboro & Obeng, 2000; Shahzad,et.al 2012;Steward, 2010; Oduol, 2015), while other studies showed that corporate culture could be a silent killer, if not aligned to firm strategy, mission and vision. These studies also revealed that corporate culture had a negative effect on performance among productivity dimensions in the market culture.

Studies on how corporate culture influences firm performance, have revealed conflicting results. The results of these studies were concluded on a single or few elements of corporate culture. Also, the studies failed to appreciate that individual chief executive officer's values differ and therefore their influence on firm performance is likely to differ, particularly among commercial banks in Kenya.

1.1 Statement of the Research Problem

Globally and locally, financial institutions enhance economic growth through financial assistance to business fraternity, which in turn facilitates to improvement in the standard of living of people. Despite this contribution, liberalization of the banking industry in Kenya in 1995 has made commercial banks to experience reduced profit margins and loss of customers. This is attributed to increased competition, raising financial costs and increased customer expectations. Consequently, studies have shown that the financial sector both globally and locally has experienced serious challenges such as; high customer expectations, increased competition, raising costs, advancement in technology, reduced profit margins, consistent fragmentation of customers' requirements and increased demand for non- traditional banking services. These challenges are likely to make commercial banks loose customers and profit margins. This can be attributed to weak corporate culture. Therefore, commercial banks need to instill good corporate culture that would enhance their strategy formulation and implementation. Studies on how corporate culture influences firm strategy have revealed mixed results. Consequently, information is lacking on how corporate culture influences a specific strategy, such as customer segmentation.

1.2 Research Objectives and Hypothesis

To determine the influence of corporate culture on customer segmentation strategy among commercial banks in Kenya.

$H_0$3: Corporate culture does not influence customer segmentation strategy.

2. CORPORATE CULTURE AND CUSTOMER SEGMENTATION STRATEGY

Aktas, Cicek and Kiya (2011) contend that individual managers' values have a strong and positive effect the firm's strategy adoption and implementation. This is deduced from their study on the effect of organizational culture on organizational efficiency in the private health sector in the city of Istanbal and Adana. Forty senior managers were selected from different health care institutions randomly. Further, the study found out that organizational culture could be a strategic asset for the firm, since it increases the adaptability of and fit between a firm and it's environment. Consequently, the research showed that self-direction character of managers was influencial in the clan culture on establishing, planning and goal setting as a strategic move in an organization.

Other studies have shown that organizational culture has an impact on job satisfaction, job efficiency, employee commitment and cooperation as well as firm's decision making (Fox, Ice & Tan 1997; Haakonsan, Burton, Obel & Lauridbn,2008, Hiller & Hambrick, 2005).In their study on managing corporate culture through reward systems, Kerr and Shocum (2005) found out that chief executive officer or organizational founders' values affects, shape the organizational culture. As a component of corporate culture, chief executve officer's values affect the manner of decision making, management style and behavior models in the firm. Further, it found out that leaders have a central role in shaping and controlling organizational culture towards strategy implementation.

A survey conducted by Oduol (2015) on the effect of organizational culture on performance of subsidiaries of selected regional commercial banks in Kenya, revealed that organizational culture positively influenced banks' policies and strategy implementation. Further, it found out that for performance of firms to improve, present organizational culture should be supportive and compatible with intented firm's strategies. This research concluded that firms should align their culture and strategies together, if they have to prosper. Kwantes and Boglarsky (2007) in their study, found out that organizational culture is the sum of dominant values, visions, perspectives, standards and modes of behavior that typify a firm and therefore relevant for firm's strategy execution.

Previous studies suggest that chief executive officers' with self-confidence and perceptions of control ability are focused on pioneering forward – looking strategic initiatives, while those with lower core self- evaluation are more apt to harbor self-doubt, have less confidence in their ability to influence the environment and decision making, when faced with challenges and always try to avoid business risks (Boone, De Brabander, & Van Witteloostuijn, 1996;Simon & Houchton, 2003; Hiller & Hambrick, 2005; Simsbk, Heavay & Veiga 2010). In their study, Yarbrough, et.al (2011) and Naranjo – Valencia, et.al (2011) found out strong relationship between marketing or product oriented strategy and organizational culture and concluded that compatibility of marketing strategy will have influence on fim performance. Another study on corporate culture and its value as a competitive resource by Klein (2011), found out that culture significantly influences the process of strategy formulation, selection as well as it's implementation. Also the selection and implementation of a strategy can streghthen or change existing culture. A study by; Janicijevic (2012) on organizational culture and strategy revealed that culture influences the strategy formulation by determining the gathering of information, perception and

interpretation for better strategy implementation. Further, it identified that through the process of legitimization of culture can facilitate or disable strategy implementation. The study found out that when culture legitimizes strategy, it significantly facilitates to strategy implementation while when culture delegitimizes strategy in favour of employees and management, it hinders strategy implementation. This research also discovered that to implement a specific strategy, requires building a specific corporate culture. For example, a firm that wishes to implement a defender strategy must build a culture in which stability and orientation are paramount.

However, studies on how organizational culture influence strategy have revealed mixed results. Most previous studies were focused on how corporate culture affects general firm strategy without pinpointing how it influences specific organizational strategy. Consequently, status on how corporate culture influences customer segmentation strategy among commercial banks in Kenya, remains unknown. Therefore, information on the relationship between corporate culture and customer segmentation strategy is lacking.

3. METHODOLOGY

The study adopted a quasi-experimental posttest only research design. Choice of this design was informed by the fact that the proposed study was explanatory in nature and sought to establish whether variations in performance of commercial banks in Kenya could be influenced by manipulations in customer segmentation and corporate culture. In line with observations by White and Sabarwal (2014), quasi experimental research designs test causal hypotheses using interventions on pre-determined subjects. In essence therefore, the present study used commercial banks that already exist, with interventions being the independent variables. Further, Aussens, Boomsma and Snijders (2011); Shadish and Campbell (2002) observe that quasi-experimental posttest research design is an empirical intervention study that seeks to establish a causal effect relationship between two or more variables. It is also called causal comparative study that involves collecting data to make inferences about a population of interest at one point in time.

The target population for the present study included all senior managers drawn from the entire set of 42 registered commercial banks in Kenya. The target population was narrowed to a study population that comprised of Business Development Manager, Customer Relations Manager, Marketing Manager, and Operations Manager drawn from each of 38 commercial banks, leaving four banks for piloting. Choice of these categories of senior managers was based on the premise that they would have relevant information that would be used to establish the causal- link between corporate culture and bank performance. The study population therefore comprised a total of 152 senior managers stratified by position held.

The study adopted a census survey of all senior managers identified in the study population. Consequently, all the 152 senior managers were included in the sample. A census study was adopted since, as noted by Saunders et al., (2003), the units of study were not many. Besides, it is argued that a census provides a true measure of the population with no sampling error, and enhances validity of the study (Kothari, 2004).

The present study relied solely on primary data sources. Kothari (2011) asserts that primary data are those which are collected on the spot from the respondents by the researcher for the first time. Primary data is original and more suitable for the study at hand, because it captures the respondents' perceptions and experiences that are critical in achieving the research objectives.

The principle instrument for data collection in the present study was the senior managers' questionnaire.

The reliability of the questionnaires was verified through examination of internal consistency of the measures. This was achieved by computing Cronbach's alpha reliability coefficients using the Statistical Package for Social Sciences (SPSS) version 22.To ascertain internal consistency of the developed questionnaire, a pilot study was conducted. A pilot study focuses on establishing the integrity of the tools or protocols designed specifically for the study. It is interested in finding out whether or not the tools works as expected and how they should be revised in the event that they fail to work (Eldridge *et al*., 2016). Piloting of the questionnaire was conducted on 16 senior managers drawn from the 4 commercial banks that were omitted from the final study population. Choice of banks omitted from the main study for the pilot study was to ensure that respondents do not mature with the tools and become a threat to internal validity of the Study.

Two forms of validity were used to validate the quantitative instrument (senior officers' questionnaire). The first form of validity was face validity which according to Bolarinwa (2015) is the judgment made based on scientific approach on whether the indicator used measures the required construct. Consequently, the researcher sought the opinion and assistance of the assigned supervisors on whether as per face value the questionnaire appeared suitable both in design and

structure and whether it measured the required constructs. An evaluation of each item was made to find out whether it matched the given conceptual domain of customer segmentation, corporate culture and bank performance. This was confirmed albeit with suggestions for some changes which were implemented.

Content validity was the second validation form conducted. Content validity is viewed as the degree with which the instrument measures the required construct (Sangoseni, Hellman & Hill, 2013). Sangoseni *et al* (2013) contend that an instrument can only achieve content validity if it undergoes a rational analysis by raters (experts) who have familiarity with the academic scope of study. The researcher therefore asked the supervisors and banking experts to critically examine the items measuring specific constructs with a view of ascertaining whether the full content pertaining to any given construct was represented in the items and whether such content was justified with evidence from literature. On close scrutiny, various suggestions for correction were made and the final questionnaire was then produced.

4. RESULTS OF THE STUDY

Multiple regression coefficients (Table 1) indicated that corporate structure ($\beta = 0.341$, $p < 0.05$), team work ($\beta = 0.260$, $p < 0.05$), and leadership ($\beta = 0.446$, $p < 0.05$) were positive and significant predictors of customer segmentation strategy. Innovativeness ($\beta = 0.089$, $P > 0.05$) was not a significant predictor of customer segmentation.

Table 1: Regression Coefficients: Customer Segmentation on Corporate Culture

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1	(Constant)	2.708	.229		11.821	.000		
	Structure	.213	.063	.341	3.413	.001	.427	2.345
	Teamwork	.168	.059	.260	2.854	.005	.511	1.956
	Leadership	.249	.101	.446	2.454	.016	.128	7.797
	Innovativeness	.042	.077	.089	.545	.587	.161	6.220

a. Dependent Variable: Customer Segmentation

Source: Research Data (2018)

The regression model for regression of customer segmentation on corporate culture was thus:

$$CSS = 0.341S + 0.260T + 0.446L + 0.089I + 0.531$$

The model summary presented in Table 2 indicates R^2 of 0.469 which is significant. Likewise, the adjusted R^2 of 0.452 is also significant. The change is (0.469-0.452), which equals to 0.017. This is below the level of 0.5, suggested by Field (2005). Therefore, it implies that the model is valid and stable for prediction. Thus, when customer segmentation was regressed on corporate culture dimension, it predicted variance in customer segmentation strategy at 46.9%. This revealed that corporate culture explains up to 46.9% of the variance in customer segmentation strategy.

Table 2: Model Summary: Customer Segmentation on Corporate Culture

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.685[a]	.469	.452	.34325	1.526

a. Predictors: (Constant), Innovativeness, Teamwork, Structure and Leadership
b. Dependent Variable: Customer Segmentation **Source:** Research Data (2018)

Besides, the ANOVA results (Table 3) shows that a model linking corporate culture to customer segmentation strategy is statistically viable.

Table 3: ANOVA: Customer Segmentation on Corporate Culture

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.019	4	3.255	27.625	.000[b]
	Residual	14.727	125	.118		
	Total	27.747	129			

a. Dependent Variable: Customer Segmentation
b. Predictors: (Constant), Innovativeness, Teamwork, Structure and Leadership

Source: Research Data (2018)

5. DISCUSSIONS OF THE FINDINGS

This study examined the relationship between corporate culture and customer segmentation strategy. Inferential analysis revealed that the model linking corporate culture to customer segmentation strategy was statistically viable and that corporate culture has a positive and significant influence on customer segmentation. In this regard, corporate culture explains up to 46.9% of the variance in customer segmentation strategy. The hypothesis of this objective was not supported because corporate culture positively and significantly influences execution of customer segmentation among commercial banks in Kenya.

A key finding was that corporate culture impacts on customer segmentation directly and contributes up to 46.9% of the variation in customer segmentation strategy. As a matter of fact, this finding points to the need for all in organizations to work together for purposes of shaping customers experiences. It is argued that profit potential is a function of a company's customer base and varies according to the difference in needs and behaviours (Bain, n.d). According to Van Bentum and Stone (2005), an understanding of how people interact socially, coupled with organizational functioning constitutes key aspects of corporate culture. The argument here is that commercial banks in Kenya appear to have taken cognizance of the fact that a healthy company culture has the potential to get employees to create positive customer experiences.

The findings of this study shows a strong and positive correlation between corporate culture and customer segmentation. This is in accord with a study by Oduol (2015) on selected banks in Kenya, which revealed that organizational culture positively influenced banks' policies and strategy implementation. It therefore means that for banks to prosper, it calls for realignment of strategy with supportive corporate culture. Further, the findings of this study are consistent with other previous studies (Aktas et.al 2011;Kwantes $ Boglarsky 2007; Klein 2011 $ Janicijevic 2012) who found out that organizational culture could be a strategic asset relevant for strategy execution and also it influence the process of strategy formulation, selection and implementation.

The study further established that individual corporate culture dimensions of structure, teamwork and leadership significantly and positively predict customer segmentation. These findings clearly reflect views by Blue Canyon partners (n.d) that an open minded culture that is attentive to customers' needs and attitude must invest in committed leadership and effective communication. Suffice to say that investing in such factors enables knowledge of demographics such as age, location, salary bracket among others that customer segmentation can be conducted against. Macindoe (2014) points out that, putting customers in groups along various demographics helps to identify customers who share similar values. This therefore enables an organization to design and develop products and services that meet varied customers requirements.

The array of potential approaches to customer segmentation that includes demographic, lifestyle, household, and feature preference, behavioural and motivational no doubt requires a culture that focuses on a clear vision for serving the right target. Morgan, Slotegraaf and Vorhies (2009) in noting that customer segmentation is a marketing capability, argue that an organizational culture interacts with customer segmentation for purposes of improving the reconfiguration and deployment of resources in the organization. This explains the finding showing positive influence of corporate culture on customer segmentation. Besides, Amit and Schoemaker (as cited in Kibera and Musyoka, 2015, p. 4) contend that an interaction between corporate culture and customer segmentation, a proxy for marketing capability earns competitive advantage and leads to improved performance outcomes.

The positive influence of corporate culture on customer segmentation is also highlighted in the arguments that culture helps identify emotional drivers and behavioural drivers that are used to explain market segments behaviour, and the relationship between market segments and product categories and their associated brands (Boykind, n.d). It is therefore imperative to argue that commercial banks in Kenya have gone out of their way to build on a positive corporate culture, to inform customer segmentation with a view to identify emotional and behavioural drivers that characterize their customers aiming to boost performance. The 46.7% variation in customer segmentation strategy occasioned by variations in corporate culture, however calls for more interactions between the two constructs if performance has to be boosted.

These findings are consistent with those of Oduol (2015), Kwantes $ Boglarsky (2007) and Janicijevic (2012) who found out that corporate culture positively and significantly influence the process of strategy formulation, selection and implementation. However, the point of difference is that Janicijevic (2012) in his study on organizational culture and

strategy found out that when culture legitimizes strategy, it significantly facilitates to strategy execution whereas when culture delegitimizes strategy in favors of employees and management, it hinders strategy implementation.

However, previous studies focused on how corporate culture influence general firm strategy without showing how it influences specific firm strategy. Therefore, the present study adds to new knowledge by providing results on how corporate culture influence customer segmentation strategy' formulation and implementation among commercial banks in Kenya.

6. CONCLUSIONS

Commercial banks in Kenya highly practice and value corporate culture dimensions of structure, teamwork, leadership and innovativeness. This has enabled them to formulate good policies, plans and ensure effective and efficient execution of customer segmentation strategies.

7. RECOMMENDATIONS

The study discovered that corporate culture had a significant influence on the commercial banks' customer segmentation strategy. It has shown that corporate culture dimensions of structure, teamwork, leadership and innovativeness impacts on banks' customer segmentation strategy formulation and implementation. Therefore, it is recommended that management of commercial banks in Kenya should realign their corporate culture to banks' mission and vision that would ensure strategic harmony between corporate culture and banks' strategy.

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