DETERMINANTS OF CUSTOMER LOYALTY IN THE RETAIL BANKING SECTOR IN KENYA

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RETAIL BANKING SECTOR IN KENYA

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STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed: ___________________________ Date: ____________________

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This project has been presented for examination with my approval as the appointed supervisor.

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Dean, School of Business

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Deputy Vice Chancellor, Academic Affairs
DEDICATION

To my dear husband Daniel and wonderful children Ariana, Andre and Amanda for your great sacrifice and profound support, thank you!
ACKNOWLEDGEMENT

To God, for giving me the grace to complete this research project.

To my Professor, Francis Wambalaba, for leading and guiding me through the drafting of proposal to the completion of this report.

To my lecturers for their teaching and equipping me with relevant knowledge.

To all respondents who made this research possible through their participation.
ABSTRACT

The purpose of the study was to investigate the factors that drive customer loyalty in the retail banking sector in Kenya. To institute this, three research questions have been formulated namely; how does customer satisfaction influence customer loyalty to a bank? How does service quality influence customer loyalty to a bank? And how consumer trust influence customer loyalty to a bank?

To answer the research questions, a descriptive design method was selected because this design is well suited to answer the “what” element of the study. The population of the study will comprise willing customers from across the 43 commercial banks in Kenya and will focus on customers based in Nairobi. Convenience sampling was used to arrive at a sample of 96 respondents. Questionnaires were used to collect data while descriptive statistics used to analyze the collected data.

The study found that customers remain loyal to banks that offer them satisfactory services and products. It was also found that customers were likely to leave banks that did not offer them satisfactory services. Credit cards and loans are some of the services that caused satisfaction. Satisfied customers were found to be likely to recommend their banks to other people. The study also found that employees of retail banks delivered prompt services to their customers which aroused a sense of quality. Employees are also responsive, assuring and emphatic when delivering services to their customers hence promising better services. It was also found that optimally performing operating systems that are secure also enhanced the quality of services delivered. Consistency of the bank to offer services promised also indicated quality and quality services influenced customers’ patronage of their banks hence loyalty. Trust was also found to be a major determinant of customer loyalty. Customers who trust a bank exhibited repeated purchase behavior and believed that their banks actions were in the customers’ best interest. Ability to deliver on promises, having high credibility and integrity also enhanced trust in a bank. Customers who have trust in their banks were found to be likely to recommend their bank to others.

The study concludes that Kenyan retail banks deliver services and products to customers’ expectations and that this services and products satisfy the customers’ needs. Satisfied customers are loyal and will recommend the bank to other people. Loans and credit cards are some of the services that offer customer satisfaction. Without satisfaction, customers
would leave their banks to those seemingly satisfying. Huge bank charges are
dissatisfying. The study also concludes that the quality of services offered to customers
strongly influences their commitment to their banks. This quality is however
demonstrated when employees deliver prompt services, are responsive, are assuring as
well as are emphatic when delivering services to customers. Quality is also manifested
when the banks have operating systems that perform optimally to offer better services to
customers. Kenyan retail banks are also noted to be providing overally satisfactory
information to their customers. The security of operating systems and the ability to handle
customers’ confidential information with precaution also ensure quality services to
customers. The study further concludes that trust significantly determines customers’
patronage of their banks. The trust is built when the banks’ actions are likely to yield
positive outcomes to their customers or when the bank acts in the best interest of
customers. Offering credible services that are of high integrity also cultivates trust.

The study recommends that banks should ensure that the products they avail to customers
meet customers’ needs and are satisfying so as to enhance their loyalty. Banks charges
should be fair since huge charges are dissatisfying. Banks should also ensure that the
quality of services and products they offer to their customers are good enough to enhance
their commitment to the bank. Bank employees must deliver prompt services; and be
responsive, assuring and emphatic when handling customers. Secure and optimally
performing systems should be acquired to ensure better services and confidentiality of
customers’ information. The provision of services should also be enhanced to increase
customer trust in the bank. Banks should also continue working in the best interest of
customers by listening to their needs and interest and where possible adopting or
responding to them appropriately. Credibility and integrity should also be cultured to
enhance trust hence loyalty.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

Customer loyalty by and large describes that behavior exhibited by a customer in purchase; where purchase is made repeatedly with affinity regardless of changes in circumstances pertaining to the product or service (Jeong and Lee, 2010). Previous researchers have not come up with a universal definition for customer loyalty (Baran, Galka and Strunk, 2008). Nonetheless, two dimensions of customer loyalty have been commonly brought to the fore by researchers: behavior and attitude (Bell, Auh and Smalley, 2005). Behavioural loyalty relates to divulged purchase and usage behavior conditioned on customer satisfaction, whereas attitudinal loyalty relates to the extended relationship with a product or service conditioned on customer preferences towards them (Mascarenhas, Kesavan and Bernacchi, 2006). Zins (2001) indicates that marketing scholars have researched widely on customer loyalty and emphasized the key role of attitude and behavior in developing loyalty which is pertinent to profitable long-term relationships.

Customer loyalty can be described as that faithful adherence to an organization/institution demonstrated by the customer. It implies a continued or maintained relationship over a significant period of time. In general loyalty has been distinguished as either an active loyalty where a consumer of a product or service, reuses and recommends a brand to others, or passive loyalty where the consumer will continue to use a brand even when dissatisfied with it and will not recommend it to others. However according to Ball, Coelho and Machas (2004), researchers argue that what matters is the continued interaction process between the brand and the user and less, if at all, is about the outcome of that interaction.

According to Jones and Taylor (2007), loyalty has become an intricate concept of study with reference to its conceptualization and measurement. Literature on customer loyalty widely views loyalty as two dimensional; one dimension focuses on behavior and the other focuses on attitude. Wong and Sohal (2003) say that customer loyalty consists of
the components of behavior and attitude, and in addition to this there also exists a third component which is a combination of behavior and attitude; the cognitive component.

According to Olbrich and Windbergs (2006) behaviouristic loyalty concepts emphasize the behavior components with marginal focus on attitudinal components. They, however, criticize the implied assumption that the buying behavior is always an expression of loyalty to the service offered and envisage misinterpretations; for instance in cases where specific goods or services are not available and substitutes or alternatives which are not necessarily preferred are demanded for instead. The latter loyalty is described as “spurious loyalty.

Attitude focused approaches to loyalty use attitude as the foundation of loyalty Olbrich and Winbergs (2006). According to Olbrich and Windbergs (2006), attitude on its own account does not necessarily beget loyalty. Intervening factors such as exorbitant prices may hinder the demand for a product or service even with a pre-existing positive attitude towards the offering.

The combined approach looks at both the behavioural and attitudinal components. Chaudhuri and Holbrook (2001) draw the linkage between the two components empirically, however, Olbrich and Windbergs (2006) criticize the linkage in relation to the single dimension used with respect to the component of attitude which they felt should have been presented by more indicators. Further, Olbrich and Windbergs (2006) although accepting that loyalty is represented by an aggregated parameter which can be used to establish specific levels of loyalty free of ambiguity, they contend that determining the threshold of customer loyalty or disloyalty is a subjective assessment made by the researcher.

A number of scholars have approached the concept of customer loyalty in diverse ways, for instance Rowley (2005) segmented loyalty as; captive, convenience seeking, contented and committed. According to Rowley, captive and convenience seeking loyalty is driven by the availability or unavailability of choice and convenience respectively whereas the contented and committed loyalty are driven by positive attitude. Cahill (2007) approaches loyalty by examining the determinants as either customer–related, relationship related or company-related. Duffy (2003) on the other hand views loyalty as either internally or externally driven. Kracklauer, Mills and Seifert (2004) contend that
customer loyalty should be viewed from the precincts of customer satisfaction and customer trust in combination.

Schweizer (2008) identifies the strong determinants of customer loyalty, as identified by previous studies and rates them by level of significance. According to Schweizer (2008), customer loyalty is influenced by a combination of these factors and is unique for different situations. The identified determinants include; purchase conditions, pricing policies, product quality, product availability, reputation and image, consumer trust, consumer experience, positive recommendation, customer loyalty programmes, customer commitment, customer participation and involvement, switching barriers, product importance and customer expectations.

In the United States, there is renewed interest in the retail banking sector which has led to a growing attraction back into the retail banking sector (Clark, Dick, Hirtle, Stiroh and Williams, 2007). According to The Economist (2011); “America retail and commercial banking generate revenues of some $750 billion a year, or just over 20% of total global banking revenue, according to Novantas, a consulting firm. And in Europe, where capital markets are still less developed than in America, the fortunes of most big banking groups will depend on how their retail banks are doing over the next few years”.

Europe’s banking sector is distinguished by its great diversity this is greatly due to the fact that a conglomerate of states exists by virtue of the European Union which created a Euro Zone and other individual states which all have differences within and between their national markets. In Europe, the banking picture of dynamism is present with expectations of change in the banking landscape (McDonald and Keasey, 2003). The changes in the European banking industry affects the market structure along the lines of features that include industry concentration and competition (Groeneveld, 1999).

According to Deloitte (2010), Asia Pacific markets with China in the lead are experiencing growth in the retail banking industry, and the likelihood of regional and international banks establishing their presence in this market is very high. The reality of increased competition is undebatable with such changes and opportunities. Other emerging economies like those in Africa are also experiencing growth in their banking sectors and along with it comes competition. In South Africa, rivalry in the banking
industry is growing, with banks competing on price, service, reputation and customer loyalty (South Africa Business Guidebook, 2008).

As the retail banking industry continues to grow and competition amongst banks stiffens, being able to build customers who are loyal to the bank is becoming key. According to Arbore and Busacca (2009) the retail banking customer has continued to develop in sophistication and is needier. The changing customer behavior, preferences and coupled with the available alternative options makes it easier for dissatisfied customers to defect from one bank to another. This switching behavior has become a major issue of apprehension in the financial services sector (Dougan, 2004). An established and stable customer base is core to banks and this can be encapsulated in the concept of customer loyalty. It is much more expensive to recruit new customers than to retain existing ones. The cost of recruitment is six times that of retention (Rosenberg & Czepiel, 1983). In a hypercompetitive market the challenge of customer retention remains immense. Given that the cost of retaining a customer is much lower than attracting a new one, then customer loyalty must be essential to a bank’s success and may play a major role in contributing to sustainable profit growth. The main problem for modern retail banking can thus be seen as the evolving customer expectations and the cost of on-boarding customers.

The financial products offered by banks cannot be distinguished and because of this, bank customers cannot make objective evaluations between banks hence the importance of the intangible asset of customer trust displayed through their loyalty (Heffernan, Oneill, Travaglione and Droulers, 2008). Ferguson & Havinka, (2007) indicate that the competition in retail banking coupled with very low levels of differentiation urges on banking marketers to look into ways of understanding the foundations of customer loyalty to help them expand on programs geared towards building longstanding relationships with customers.

According to a survey done by Ernst & Young (2010) in the Asia-Pacific region the retail banking sector across the countries surveyed showed numerous trends suggesting customer loyalty was low in several banks; the issue, they reported, had nothing to do with declined bank-service quality but rather that customer expectations had changed. The survey concluded that the market within the region surveyed needed to move beyond customer satisfaction to pursue customer advocacy and loyalty.
In the last five years the European banking system has experienced significant change with the Euro zone financial crisis. In another survey carried out by Ernst and Young across Europe the firm reported that the crisis has impacted on customer relationships across various industries including the retail banking sector. Their survey which covered six European countries namely; Belgium, France, Germany, Italy, Spain and the UK using 6,100 respondents showed that the impact of the credit crisis greatly touched on the average customer’s trust in and relationship with their retail bank. According to the resulting report, Ernst & Young concluded that loyalty management and customer retention has become a major issue in the retail banking sector.

In Kenya the banking sector, and by extension the retail banking sector, is not shy of competition. The competition is stiff with several players in the market. According to the Central Bank of Kenya (2012), the banking sector comprises of 43 commercial banks, 1 mortgage finance company, and six deposit taking microfinance institutions. The rapid growth of the Information Communication and Technology (ICT) sector has further contributed to the competition in the retail banking sector by providing alternative distribution channels. Many commercial banks are now giving their retail banking operations much more attention than they did before as compared to their corporate banking operations.

Various studies have been carried out on the banking sector in Kenya and which have illuminated on competition and the strategies being adopted by banks to manage their competitive environment. Kiptugen (2003) in the case study of Kenya Commercial Bank (KCB) concluded that the Bank had adopted in it’s strategic plans, reactive strategies with regards to dealing with the ever changing and evolving needs of their customers. According to Warugu (2001) in his research, established that banks in the Kenyan market are using customer focus and product differentiation as key tools to compete for space in the banking industry.

Customer Loyalty has its foothold in the discipline of marketing. According to Jain and Singh, (2002) the elevated understanding of customer loyalty has borne a customer-centric approach to strategy formulation. Over the years the body of knowledge in marketing has continued to evolve and one area where this is prominent is with regards to the customer. Bassington and Pettit (2006) discussed the era of “simple” trade where goods were sold in exchange for others through barter trade. Onwards, this focus on
production of goods was replaced by focus on marketing of goods produced, what (Jobber, 2004) referred to as marketing orientation. (Kotler and Armstrong 2000, Brassington and Pettit, 2006) contended that it was not about trying to dispose off through selling what had been produced, but rather focus on meeting customer needs. Focus has shifted greatly to the customer.

The impact of customer loyalty to organizations elevates the need to identify the determinants of customer loyalty. According to Hsieh and Li (2008), the drivers of customer loyalty have been discussed extensively in various studies. Schweizer (2008) indicates that customer loyalty is driven by a unique combination of factors. He identifies what he considers as powerful determinants of customer loyalty and among them being; switching barriers, customer trust and quality. Research has shown positive relations between customer loyalty and factors such as satisfaction (Lam, Shankar, Erramilli and Murthy, 2004) and trust (Agustin and Singh, 2005).

A study on customer loyalty in the banking sector in Pakistan found that “the effect of satisfaction, switching cost and commitment on customer loyalty is positive and significant”, Afsar, Rehman, Qureshi, Shahjehan (2010). Another study by Ehigie (2006) conducted on customers of financial institutions in Nigeria evaluating the impact of customer satisfaction, perceived service quality and customer expectation on customer loyalty concluded that, customer satisfaction is the strongest determinant of customer loyalty and perceived quality has strong influence but less than that of customer satisfaction on customer loyalty and finally that customer expectation has insignificant impact.

Ball et al. (2004) looked at the banking sector as characterized by having long term relationships with their customers and deliberately encourage loyalty through various offerings. Beerli, Martin and Quintana, (2004) highlight customer retention as a key consideration as one of the various factors seen to increase income in retail banking. Alam and Khokar, (2006) bear out that several strategies have been developed by banks all aimed at customer retention including novelty offerings.

The banking sector and by extension the retail banking sector for a long time operated in a relatively unwavering environment. Today that stable environment is virtually nonexistent. Over the past decade the retail banking sector dynamics have changed
dramatically with the development and advancement of technology, globalization and changes in legislation and regulation among other factors. According to Foo, Douglas and Jack (2008), the playing field in retail banking has been leveled as financial products have attained similar levels of development making it difficult to distinguish between one bank’s product offering and another, hence making the retail banking sector an increasingly competitive industry.

1.2 Statement of the Problem

Efforts in the pasts have been geared towards customer acquisition, but relentless competition and relatively low switching costs for customers has brought to the fore the need to appreciate and build customer loyalty (Wallace, Giese and Johnson, 2004).

It was noted by Ernst & Young (2010) in their survey of the retail banking market in Asia-Pacific that customer expectations had changed within the region and even though the retail banks may have maintained quality bank service, customer loyalty was low. According to McMullan and Gilmore, (2008), in a competitive environment, harnessing loyalty from customers is an essential element for survival.

Even as various studies have been done on the Kenyan banking industry (Kiptugen, 2003 Warugu, 2001), these studies have focused on various aspects that are related to competitive strategies being adopted by banks in the Kenyan banking industry but none has addressed the issue on customer loyalty in the retail banking sector and what drives it. Given that globally the focus on customer loyalty is becoming a dominant factor in retail banking and that the competition continues to stiffen in the retail banking industry, it becomes even more compelling to understand these drivers of customer loyalty in the retail banking sector in Kenya.

1.3 Purpose of the Study

The purpose of the study is to investigate the factors that drive customer loyalty in the retail banking sector in Kenya.

1.4 Research Questions

The following were the research questions:
1.4.1 How does customer satisfaction influence customer loyalty to a bank?

1.4.2 How does service quality influence customer loyalty to a bank?

1.4.3 How does consumer trust influence customer loyalty to a bank?

1.5 Significance of the Study

1.5.1 Banking Industry

The outcomes of the study will aid banks to appreciate the strategic imperatives for building a loyal customer base, and possibly use the same to harness the same to build their competitive advantage.

1.5.2 Policy Makers and Regulators

The study will be useful to policy makers and regulators such as the Government, Central Bank of Kenya and the Kenya Banker’s Association to gain a better understanding of the actions being taken banks in their quest for defending their customer bases. As well as help them develop meaningful regulation in the area of competition.

1.5.3 Scholars

This study may form a basis for further research in the future, by providing a reference point. The outcome may also contribute to the body of literature on customer loyalty.

1.6 Scope of the Study

The study will be conducted among retail banking customers from among any of the 43 banks in Kenya. The focus will be on customers based in Nairobi. The data will be collected from willing respondents due to the convenience.
1.7 Definition of Terms

1.7.1 Retail Banking

The EFTA Surveillance Authority (2007) defines retail banking activity as “banking services for consumers (individuals/private households) and small and medium sized enterprises”.

1.7.2 Loyalty

“Refers to customer behavior characterized by a positive buying pattern during an extended period and driven by positive attitude towards the company and its products or services” (Van Looy, Gemmel and Van Dierdonck, 2003).

1.7.3 Customer Satisfaction

Kotler (2000) defined customer satisfaction as “a person’s feelings of pleasure or disappointment resulting from comparing a product’s perceived performance (or outcome) in relation to his or her expectations”.

1.7.4 Service Quality

Service quality is defined as “the difference between customers’ expectations for service performance prior to the service encounter and their perceptions of the service received” (Asubonteng, McCleary and Swan, 1996).

1.8 Chapter Summary

Chapter one highlights the retail banking industry against the backdrop of competition and evolving customer preferences. The background study on customer loyalty is presented and the related gap exposed within the context of the Kenyan retail banking market. The statement of the problem is provided and research questions established along with the justification of the study. Finally, the scope of the study and the definition of key terms used in the study are presented.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter highlights and critically discusses the theoretical and empirical aspects on customer loyalty. It then looks at issues, within the context of customer loyalty, regarding: customer satisfaction, service quality and consumer trust. Loyalty within the context of financial services is looked at against the length of the relationship between a service provider and a customer, the number of services utilized and how frequently the services adopted by the customer are utilized. Thus loyalty ideally captures a combination of the recognition, understanding, knowing, affection and behavior displayed by the customer towards a service provider as a result of their direct or indirect interaction (Lewis Sourely, 2006). According to Dick and Basu (1994) truly loyal customers are highly likely to propagate positive recommendations of their service providers to others.

2.2 Influence of Customer Satisfaction on Customer Loyalty

2.2.1 Customer Satisfaction Concept

Kotler (2000) defined customer satisfaction as “a person’s feelings of pleasure or disappointment resulting from comparing a product’s perceived performance (or outcome) in relation to his or her expectations”. This is echoed by Hansemak and Albinsson (2004), “satisfaction is an overall customer attitude towards a service provider, or an emotional reaction to the difference between what customers anticipate and what they receive, regarding the fulfillment of some need, goal or desire.” Inspite of the diverse definitions of customer satisfaction, some common elements are shared within these definitions which are that customer satisfaction is; a response whether emotional or cognitive, it is a response as a result of a specific focus search as say a product, it has a time element e.g. It occurs after consumption or after an experience (Giese and Cote, 2002).

According to Morrison and Huppertz (2010) customer satisfaction is of significant value to a business if it translates to a positive financial outcome. They add that management literature alludes to profitability and growth as outcomes of customer loyalty. Further behavioural loyalty is seen as a direct outcome of customer satisfaction. Morrison and
Huppertz (2010) try to assign the source of the market share of a business as reviewed between reporting periods as comprised of; first, from customers who have defected from other service providers, secondly, as customers who are new to the market and thirdly as loyal customers retained by the business from the previous reporting period. Although customer satisfaction in many cases is assigned a key independent role as impacting on behavioural intentions, Bennet and Rundle-Thiele (2004) argue that not one single variable influence customers’ behavior and actions but rather a combination of factors working in combination.

2.2.2 Characterizing the Customer Satisfaction – Customer Loyalty Relationship

That customer satisfaction has been associated with customer loyalty has not been lacking in the marketing and service literature. Heskett and Sasser (2010); Chi and Qu (2008) all grant customer satisfaction a prime position as a determinant of customer loyalty. They also add that satisfied customer can act as a great influence of attracting new customers to an organization since they act as word-of-mouth advertisements of the organization. Satisfied customers also build the image of a company in a positive manner since they speak of it positively. According to Eggert and Ulaga (2002) customer satisfaction strongly predicts behavioural variables like customer loyalty, positive recommendations and intentions to purchase again from the same service provider.

Both theoretical and empirical research show a positive relationship between customer satisfaction and customer retention rate (Mittal and Kamakura, 2001). Customer satisfaction has been poised as a leading determinant of customer loyalty (Lam and Burton, 2006). It has also been assumed that the financial performance of service organizations relies on significant levels of customer satisfaction (Reichheld, 2003). According to Fornell, Mithas, Morgeson and Krishnan (2006) customer satisfaction has been linked to positive business performance in the areas of market share, transaction costs, product usage and overall productivity amongst others and it is expected then to translate naturally that this would affect stock prices and company valuations.

Morrison and Huppertz (2010) and Sousa and Voss (2009) contend that customer satisfaction and customer loyalty are distinct allies. In their studies the bases for the distinction on several grounds is reviewed but in general it has been proposed that a
higher level of customer satisfaction has been reflected to higher customer loyalty, which has been hypothesized in marketing literature (Pinae, Cunha, Rego, Kamoche, 2009).

The performance of a business is, in general, important for the owners of the business. In this sense then the establishment of a loyal customer base is meaningful within this context. Organizations need to understand then what determines customer loyalty and why customer satisfaction is considered as one of the determinants (Olsen, 2007; Alegre and Cladera, 2009).

Olsen (2007) considers customer satisfaction as a global evaluation where the customer will make an assessment in totality notwithstanding the various constructs. Olsen (2007) further contends that this mode of evaluation should take preference.

In their study on the importance and contribution of intangible assets within the context of small and medium enterprises Steenkamp and Kashyap (2010) inform the debate on the significance and contribution of intangible assets to businesses. In the findings of their study customer satisfaction, on average rating, ranked as the most important intangible asset and thereafter customer loyalty inter alia. Dagger and David (2012), take a more conservative approach to the relationship between customer satisfaction and customer loyalty. According to Dagger and David (2012) assuming a positive correlation between the two constructs oversimplifies the association which they describe as complex. They view a more accurate framework of the relationship as one where the moderating effect of involvement, switching costs and relationship benefits are accounted for. In the same light Bennett and Rundle-Thieles’ (2004) contended that indeed customer satisfaction is a necessary component of loyalty but is not sufficient on its own to guarantee high loyalty.

Cook, (2008) describes the customer satisfaction – customer loyalty relationship as non-linear. The contention is that growth in customer satisfaction does not guarantee direct growth of customer loyalty; the relationship is moderated by various factors.

### 2.2.3 Empirical Reviews on Customer Satisfaction

The significance of the customer satisfaction- customer loyalty relationship has seen the growth of the research literature on the matter (Olsen, 2007). Alegre and Cladera (2009) identify three major aspects of studies on this relationship namely on; (1) mediation,
where the study examines the existence of either a direct or indirect relationship between customer satisfaction and customer loyalty, (2) nonlinearity, where a more complex relationship between the two constructs relating to the independent and dependent variables is examined, and (3) moderation effects, which investigates the external factors (moderators) that engage the relationship; this factors have weight on the strength or direction of the relationship.

A dominant model in the research relating to customer satisfaction is the expectation-disconfirmation paradigm that makes the assumption that satisfaction is the upshot from relating actual experiences with previous encounters, expectations and perceptions on the matter of the performance a consumed product or service (Matzler, Fuller and Faullant, 2007).

In a study carried out in Nigeria on correlates of customer loyalty to their banks, Ehigie (2006); a positive relationship was found to exist between customer satisfaction and customer loyalty. A survey research was carried out using both qualitative and quantitative techniques. In the former, 18 participants were selected for focus group discussions and 24 for in-depth interviews; these participants were bank customers who had at least a savings, current and electronic bank account. In the latter technique 247 bank customers were selected to participate. The sample size for the study was 300 participants from 6 different banks. A regression analysis was applied which revealed customer satisfaction as one amongst other precursors of customer loyalty.

In Spain, a study carried out by Casalo’, Flavian and Guinaliu (2008), on the role of satisfaction and website usability in developing customer loyalty and positive word-of-mouth in e-banking services, the findings showed that satisfaction was significantly related positively to customer loyalty. In this study, an online survey was carried out on willing participants and a total of 142 valid responses were received. The participants answered questions relating to their online financial services provider, these questions related to loyalty and satisfaction levels.

Kassim and Abdullah (2010) carried out a study to assess the effect of service quality on customer satisfaction, trust and loyalty within the context of e-banking. The study was conducted in Malaysia and Qatar using the convenience sampling technique and a total of 357 respondents. Service quality was seen to have a significant positive effect on the
three aspects. Notwithstanding the fact that the focus of the research was on the relationship between service quality and the three aspects of; satisfaction, trust and loyalty, the findings further yielded the result that customer satisfaction and trust had a significant effect on loyalty through word –of-mouth.

2.3 Influence of Service Quality on Customer Loyalty

Service quality has been viewed as operation influenced on the one hand by expected quality, which is generated by propositions, customer needs and external imagery, and on the other hand by experienced quality, which is related to functional and technical dimensions (Veloutsou, Daskou, S. and Daskou, A., 2004). A widely used approach in the understanding of service quality is the Gap Model which defines service quality in terms of how a customer perceives the service at hand to be as compared with the expectation of what excellent service should be (Mukherjee, Nath and Pal, 2003).

Traditionally, service quality has been viewed as the gap in customer expectations regarding a service to be received and the actual service delivery (Gronroos, 2001). According to Heskett and Sasser (2010) the concept of service quality has been deliberated on and used in great measure in marketing texts and its role in management and marketing has been highlighted considerably.

2.3.1 Dimensions of Service Quality

According to Jain and Gupta (2004) the most popular measurement models on service quality from a review of extant literature points at SERVQUAL and SERVPERF; these two models have been applied widely. SERVQUAL includes in its measurement dimensions; tangibles, responsiveness, assurance, empathy and reliability. SERVPERF evaluates service quality on the strength of performance only. It was developed by critics of the SERVQUAL model, who challenged the conceptual appropriateness of the latter model.

Despite having been challenged the measuring tool “remains the most complete attempt to conceptualise and measure service quality” (Nyeck, Morales, Ladhari and Pons, 2002). Further, Nyeck et al (2002) contend that SERVQUAL is a versatile tool allowing researchers to apply it to diverse unrelated service industries including the banking
industry. The SERVPERF model in an attempt to correct the perceived inadequacies of the SERVQUAL model discarded the expectation component and replaced it with performance (Jain and Gupta, 2004).

In their consideration of service quality in relation to customer satisfaction, Sureshchandar, Rajendran and Anantharraman (2003) identified five factors of service quality namely; service product (core service), human element of service delivery, systems (non-human element of service delivery), social responsibility and tangibles related to service delivery. Tangibles include physical facilities, equipment and appearance of personnel.

A study done on the internet service quality of online shopping websites, where a multiple-item scale of assessing service quality was developed – the e-SQ scale, identified seven dimensions of service quality consisting of; efficiency, system availability, fulfillment, privacy, responsiveness, compensation and contact (Parasuraman, Zeithaml and Malhotra, 2005). Responsiveness is considered as the willingness to help customers and provide prompt service. Studies on the SERVQUAL model have identified reliability as a vital element in terms of customer’s judgement of the performance of a service provider. Reliability is the capacity to deliver on service propositions dependably and accurately.

2.3.2 Empirical Reviews on Service Quality

Though there seems to a discussion concerning the relationship between customer service quality and loyalty, most of the empirical studies available are still limited (Portela and Thanassolis, 2006). Portela and Thanassolis opine that available studies on bank branches’ efficiency in general do not account for the changing role of bank branches. Service quality is of great significance when analyzing the performance of bank branches, because the competitiveness of these branches depends on their levels of service quality.

High levels of service quality have been identified as key towards achieving customer loyalty which is considered the main aim of business (Ehigie, 2006). As such, the current business environment requires that awareness among bank customers of their rights be enhanced and consequently, banks should also ensure that their services meet the changing demands and are highly competitive and progressive so as to ensure customers
derive the satisfaction desired from them. This will ensure high customer loyalty to the bank. Some of the conspicuous empirical studies done concerning the relationship between customer loyalty and service quality are discussed in the following paragraphs.

Several studies on the relationship between service quality and customer loyalty abound. Lewis and Soureli (2006) in their study on the drivers of customer loyalty in the retail banking sector linked service quality among other aspects as key determinants of loyalty. In a study done on service quality models, Sangeetha and Mahalingam (2011) developed service quality models applicable to the banking sector. The researchers collected primary data from 500 respondents who were customers of Islamic banking institutions. The research identified the following factors as having the greatest impact on customer loyalty; perceived service quality, positive recommendations, personal experience, customer engagement, relationship management and security of systems.

In another study by Ganguli and Roy (2011), carried out on bank customers in India to determine external factors that were likely to influence customer loyalty, the researchers collected primary data using research survey. The exploratory and confirmatory factor analysis methodology was employed. The study yielded “four generic service quality dimensions in the technology-based banking services- customer service, technology security and information quality, technology convenience and technology usage ease and reliability”(Ganguli and Roy, 2011).

The researchers conclude that the service quality and the specified dimensions should be viewed as key external determinants of customer loyalty. Ganguli and Roy, (2011) however, qualified their research by the fact that it was predominantly focused on on-line banking and that the findings are limited to the country of India.

2.4 Influence of Consumer Trust on Customer Loyalty

Although customer satisfaction has been viewed as key in determining customer loyalty, however, there are instances where satisfying customers is not sufficient. Sometimes satisfied customers may leave an organization. As such many researchers have delved into the issue of customer loyalty and brought up the aspect of trust. Some customers may become disloyal to their organizations if they do not trust the organization even if the services or products provided are of high satisfaction or quality. According to Caceres
and Paparoidamis (2007), consumer trust has been shown to take a higher pedestal position than customer satisfaction within the context of mediating customer loyalty.

In e-commerce and online services trust has taken an elevated position as a determinant of customer loyalty and has been seen to influence use behavior following the adoption of a service (Kim, Ferrin and Rao, 2009). It should be understood that in the current business environment, the use of technology and particularly internet to do business has been on a significant rise. This has opened up the customer base of business from the physically accessed customers to much more customers abroad who may not necessarily be reached physically. As such trust has played a significant item that makes this spread market loyal to a company’s services/products. Such issues as online banking, debit and credit cards the security and safety of customers’ transactions and information has been a key issue. Trust has therefore played a big role in the customer’s ability to decide who to transact with and who not to do it (Aydin and Ozer, 2005).

Trust has been looked at in diverse ways but all converge with the willingness displayed by one party to be subsumed by another party with the expectation that the latter will always act in their best interest even without any monitoring. Gefen, Karahanna and Straub (2003) defined trust within the context of a set trusting beliefs which included integrity, benevolence and competence.

Trust can be defined as one party’s confidence in the other relationship members reliability, durability and integrity and the belief that its actions are in the best interest of and will produce positive outcomes for the trusting party (Peppers and Rogers, 2004). Aydin and Ozer, (2005) rank trust as behavioural and further viewed it as presenting some form of dedication by a consumer towards a service provider to the extent that the former does not have a significant concern that a service provider may engage in opportunistic behavior towards them.

2.4.1 Conceptualization of Consumer Trust

Diversity in the conceptualization has been acknowledged by researchers (Aydin and Ozer, 2005). It has also been established as one of the factors creating the foundation in trust. Many would agree that diversity brings about the concept of variety and uniqueness which eliminates monotony characteristic with absence of diversity.
In a study entitled “Satisfaction and trust on customer loyalty: a PLS approach” done by Yap, Ramayah and Shahidan (2012), consumer trust was defined firstly as credibility trust; where the customer held the belief that the service provider will deliver as promised and secondly as benevolence trust where the customer believes that the service provider will act on their best interest and will not take advantage of them.

Consumer trust has variously been viewed as consumers’ perceptions, where the service providers attributes are scrutinized and consumer develop a response based on what they perceive; the attributes include capacity to deliver, integrity and benevolence (Kim and Benbasat, 2006).

Another view of consumer trust is linked to intentions; where the customer shows willingness to depend on the trustee or service provider. It implies that the customer feels secure and opts to act on information or the offer made by the service provider, (Lin and Wang, 2006).

The concept of trust within the context of customer loyalty has also been defined in terms of (a) trusting beliefs; where the customer holds perceptions based on the vendors attributes in terms of benevolence, capacity and integrity (Kim and Benbasat, 2006), trusting intentions; where the customer feels confident enough to repeatedly use the service providers offering or act on information provided by the service provider (Lin and Wang, 2006). Rodriguez, Perez, and Gutierrez (2007) submit that for trust between a customer and service provider to exist the two components of trusting beliefs and trusting intentions must be present.

2.4.2 Empirical Reviews on Trust

Trust has been shown to directly and positively incline customers towards loyalty to service providers (Chiou, 2004). Lin and Wang (2006) explored the relationship between trust and customer loyalty and concluded that when customers develop trust in service providers they build within themselves positive attitudes which translates to repurchase behavior which eventually matures to customer loyalty. They also added that a better strategy should be put in place to ensure future services and products are trustworthy to customers so as to enhance their loyalty.
A study done to analyze the relationships between service quality, trust and loyalty within the context of mobile internet users in Indonesia revealed a positive relationship between trust and customer loyalty, (Roostika, 2011). In this study data was collected from 186 respondents in Yogyakarta, Indonesia; more than half of the respondents were between the ages of 18-24. All hypotheses were supported and trust as compared to service quality was found to have a stronger effect on customer loyalty.

In 2001, a survey of banking customers in Portugal from ten banks representing a market share of 66 percent. A total of 2,826 respondents were interviewed. The study concluded that the addition of trust was an important construct to include in explaining loyalty, however, surprisingly trust was found to have little direct impact on loyalty with regards to the banking sector. The construct of trust was found to have insignificant variation between banks (Ball, Coelho and Machas, 2004).

Yap, Ramayah and Shahidan (2012), carried out a survey on bank customers of one bank in Malaysia, data was collected from a total of 247 respondents with 239 valid responses, where 51% were female and 49% were male. The study examined the relationship between customer satisfaction, trust and loyalty. The study provided empirical evidence on the positive influence of trust on customer loyalty. Further the researchers included in the implications of their study, the need for banks to significantly seek out to build trust within its two constructs of credibility and benevolence.

In another study carried out on bank customers in a major city in Germany by Kantsperger and Kunz (2010); where the main purpose of the study was develop a conceptual model of consumer trust in a service company and distinguish the trust dimensions that have a mediating effect on the relationship between the customer and a service provider. In this study, data was collected from 232 respondents who were retail banking customers with checking accounts. The retail banking sector was selected as the application field of the study because it availed service chains where the element of trust was considered with significance. Of the 232 respondents; 51% were male and 49% were female.

The findings showed that two dimensions of trust affect customer loyalty namely; benevolence and credibility. Further, benevolence was found to have a more significant
influence on customer loyalty in comparison to credibility and finally that besides customer satisfaction, customer’s propensity to trust also influence trust.

2.5 Chapter Summary

In this chapter, published literature relevant to the study has been reviewed. The chapter looked at the approaches to customer loyalty and highlighted focus on the three constructs of customer satisfaction, service quality and trust. Also included in this chapter are the empirical reviews related to the highlighted constructs.

Chapter three will address the research methodology; where the procedure adopted in conducting the research will be delved into.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

In this chapter details of the method that was used to conduct the research are described. It addresses the research design adopted for the study, the population and sample used, the data collection methods applied, the data analysis methods used and the research procedures adopted.

3.2 Research Design

Cooper and Schindler (2008) describes research design as comprising an activity linked to a research question which guides the selection of data sources, provides a framework for specifying relationships between variables and outlines the procedures for the research process. This study adopted descriptive research design. Descriptive research is defined as research where the outcome sort is that which as closely as possible represents the persons or situations being studied (Saunders, Lewis and Thornhill, 2009). Mugenda and Mugenda (2003) wrote that descriptive design among other things describes relationships between variables- dependent and independent variables. In this study, the descriptive approach was considered as particularly appropriate because it involves the investigation on behavior of variables; which is varied and which occurs in diverse settings. In this study the dependent variable is customer loyalty and the independent variables are customer satisfaction, trust and service quality. This study sought to determine whether customer satisfaction, service quality and trust drive customer loyalty in the retail banking sector in Kenya.

3.3 Population and Sampling Design

3.3.1 Population

Mugenda and Mugenda (2003) describe a population as an entire group of individuals having common observable characteristics. According to Sharp and Howard (2006), the total anthology of elements from which reference will be made is referred to as a population. The target population in this study comprised of willing customers from the 43 commercial banks in Nairobi, Kenya. According to the Central Bank of Kenya
Supervision Annual Report, 2010, there are 44 banking institutions in Kenya, 43 commercial banks and 1 mortgage finance company. Table 3.1 below shows the population distribution of banks in Kenya.

**Table 3.1 Population Distribution of Banks in Kenya**

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Number</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Public</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Local Private</td>
<td>27</td>
<td>62</td>
</tr>
<tr>
<td>Foreign</td>
<td>13</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>43</td>
<td>100</td>
</tr>
</tbody>
</table>


### 3.3.2 Sampling Design

#### 3.3.2.1 Sampling Frame

According to Cooper and Schindler (2008), a sampling frame is an accurate and complete list of the population from which a sample is actually drawn. The sampling frame includes all representative elements in the population selected for a specific investigation. For this study, the sampling frame was all customers from the commercial banks licensed by the Central Bank of Kenya.

#### 3.3.2.2 Sampling Technique

Data was collected from retail customers of banks using the convenience sampling technique. According to Saunders, Lewis and Thornhill (2009), convenience sampling which is a non-probability method, is applied to those situations where the researcher can only obtain responses from willing respondents. The reason why this sampling technique was selected for this study is because a formal access to lists of populations from the banks is not possible. Questionnaires will be administered to retail banking customers located in Nairobi, Kenya using simple random sampling.

#### 3.3.2.3 Sample Size

Mugenda and Mugenda (2003) recommend the following formula to arrive at an adequate sample size:
\[ n = \frac{Z^2pq}{d^2} \]

Where:

- \( n \) = the desired sample size (if the target population is greater than 10,000).
- \( Z \) = the standard normal deviate at the required confidence level
- \( p \) = the proportion in the target population estimated to have characteristics being measured
- \( q = 1 - p \)
- \( d \) = the level of statistical significance set.

An estimate of 50% has been used for the “p”; this has been informed by Mugenda and Mugenda (2003), where if there is no estimate available of the proportion in the target population assumed to have the characteristics of interest, 50% should be used. Given a desired accuracy of at least 90% (0.1 level), the sample size is calculated as follows:

\[ n = \frac{(1.96)^2(0.50)(1-0.50)}{(0.1)^2} \]

\[ n = 96 \]

The distribution of this sample was based on the ration of the banks in the Kenyan market. Since public local banks were few compared to the other banks, fewer respondents were taken from them while local private banks gave a larger number of respondents based on their large number and probably large customer base. The distribution was as shown in table 3.2.

**Table 3.2: Sample Population Distribution**

<table>
<thead>
<tr>
<th>Category of bank</th>
<th>Number of respondents (sample)</th>
<th>Percentage (%) sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Public</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Local Private</td>
<td>62</td>
<td>65</td>
</tr>
<tr>
<td>Foreign</td>
<td>24</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>100</td>
</tr>
</tbody>
</table>
3.4 Data Collection Methods

Primary data was used in this study. This study adopted a questionnaire as the main tool. The questionnaire was deemed as the most convenient tool as specific predetermined areas are focused on. This study used a structured questionnaire for data collection which included both closed and open ended style of questions to help the respondents easily answer the questions as well as yield adequate information for the study.

3.5 Research Procedures

A pre test was done for the study a week prior to the actual study date. The purpose of the pre-test was to determine that the elements of the study are stated clearly and have the same meaning to all respondents. At least ten retail banking customers from banks within the city-Nairobi participated in the pre-test; this being 10% of the sample size. However, this sample was not part of the final sample of the study. The results from the pilot test were then used to reassure the researcher of the quality of the instruments and where the instrument displayed weaknesses, corrective measures were taken.

The researcher used trained and experienced research assistants to administer the questionnaires. Some questionnaires were delivered to respondents and collected after being completed, while others were completed in the presence of the assistants. A scheduled programme was used to control the administering of the instruments. The respondents were assured of anonymity and confidentiality through a cover letter.

3.6 Data Analysis Methods

Since this study is of a descriptive nature, descriptive methods of analysis were also used in analyzing the findings. Descriptions are good because they presented the facts as they are concerning the determinants of customer loyalty among Kenyan banks. The mean and mode of the factors considered to affect loyalty was calculated to establish the extent to which they affected it. The data was processed and summarized using Excel program. The findings were then presented in tables and figures and meaningful conclusions and recommendations made from them.


3.7 Chapter Summary

This chapter has described the research methodology that will be adopted for this study. The chapter is structured around the research design, population, sampling frame, sample size, data collection procedures and lastly, the data analysis methods which will be used in the study. The following chapter will focus on the results and findings of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the findings collected by the study. The chapter is organized according to the research questions being answered starting with an introduction and the return rate achieved by the study. Findings were collected from respondents who were intercepted by convenience sampling. The researcher together with her staff positioned themselves in banking halls and intercepted customers who visited the halls to participate in the study. The customers were first introduced to the research study process before questionnaires were delivered to them on their consent.

4.2 General Information

The study targeted 96 respondents out of whom 73 completed and returned their questionnaires duly filled for analysis. This comprised a return rate of 76% which is way beyond the average mark. This means that the returned questionnaires comprised majority of the target sample size hence analyzing them could present findings and conclusions that would be validly generalized to the whole population.

4.3 Demographic Information

4.3.1 Gender of Respondents

On the demographic information of the respondents, the study began by enquiring the gender of respondents to establish the distribution. The collected results were as indicated in figure 4.1.

![Figure 4.1: Gender of Respondents](image-url)
The study established that majority of the respondents were males at 58% while females comprised 42%. The disparity was not huge hence the respondents were an adequate representative of both genders.

4.3.2 Age Bracket

The study also sought to know the age bracket of most of the respondents. The results were as indicated in Table 4.1.

<table>
<thead>
<tr>
<th>Age bracket</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-25</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>26-34</td>
<td>22</td>
<td>30</td>
</tr>
<tr>
<td>35-42</td>
<td>23</td>
<td>32</td>
</tr>
<tr>
<td>43-50</td>
<td>19</td>
<td>26</td>
</tr>
<tr>
<td>Above 50</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>73</td>
<td>100</td>
</tr>
</tbody>
</table>

Thirty two percent of the respondents were aged between 35-42 years while 30% were aged between 26-34 years. The largest group was in the 43-50 age group and were represented by 26% of the respondents. This indicates that majority of bankers interviewed were of a young (age 26-42 years).

4.3.3 Level of Education

Concerning the level of education of respondents, the study found results in Figure 4.2.

![Figure 4.2: Level of Education](image)

Majority of 36% of respondents had university degree as their highest level of education followed by those with college diploma at 23% and those with secondary education
certificates were 25%. Few, 5%, of the respondents had primary education certificate as their highest education level. This indicates that most of the account holders to the target banks were well educated.

4.3.4 Main Bank

The study aimed to find out the main bank of respondents so as to categorize the most preferred class of banks. The results in table 4.2 present the collected findings.

Table 4.2: Respondents’ Main Bank

<table>
<thead>
<tr>
<th>Bank</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>15</td>
<td>21</td>
</tr>
<tr>
<td>Family</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Cooperative bank</td>
<td>13</td>
<td>18</td>
</tr>
<tr>
<td>Barclays</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>National</td>
<td>9</td>
<td>12</td>
</tr>
<tr>
<td>KCB</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Standard Chartered</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>I &amp; M</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Chase bank</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>NIC</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>73</td>
<td>100</td>
</tr>
</tbody>
</table>

Most of the respondents, 21%, were bankers with Equity bank, 18% banked with Cooperative bank, 16% with family bank, 12% with national bank and 11% with Barclays bank of Kenya. The least number of respondents, 3% banked with I&M and Chase banks. This indicates that most of the respondents came from private banks though some like Cooperative and National have government shareholding.

4.3.5 Multiple Bank Relationships

The study aimed to establish whether respondents had more than one bank account so as to establish the extent of loyalty of customers. The results in figure 4.3 were collected.
The study found out that 26% of respondents had relationships with other banks while 74% of the respondents were only loyal to one bank.

The study went further ahead to establish the number of banks with which the 26% had a relationship. The results were as presented in table 4.3.

### Table 4.3: Number of Banks Relating With

<table>
<thead>
<tr>
<th>No of other banks</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>12</td>
<td>63</td>
</tr>
<tr>
<td>Two</td>
<td>5</td>
<td>26</td>
</tr>
<tr>
<td>three</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100</td>
</tr>
</tbody>
</table>

Out of the respondents who related with more than one bank, 63% of them only related to one other bank, 26% related to two other banks and the remaining 11% related to three other banks. When these results are merged with those established in figure 4.3, it is evident that most of respondents are loyal to one bank and majority of those who are not have another one banking relationship.

### 4.3.6 Key Services Sought from Banks

The study established the key services sought from banks to be as indicated in table 4.4.
Table 4.4: Key Services Sought from Banks

<table>
<thead>
<tr>
<th>Service south from bank</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>24</td>
<td>33</td>
</tr>
<tr>
<td>Loan</td>
<td>18</td>
<td>25</td>
</tr>
<tr>
<td>Salary</td>
<td>23</td>
<td>32</td>
</tr>
<tr>
<td>Deposits</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>73</td>
<td>100</td>
</tr>
</tbody>
</table>

The services that were most sought from banks were savings at 33%, receiving of salaries at 32%, loan facilities at 25% and deposit services at 11%. This indicates that most of the respondents only used their banks to save or receive salary.

4.4 Customer Satisfaction

The first research question of the study aimed to establish how customer satisfaction influences customer loyalty in banks. The results were as presented in the subtitiles that follow.

4.4.1 Satisfaction of Services/Products from my Main Bank

The study aimed to find out whether the respondents’ main bank delivered to the desired expectation, and whether the services and products the bank delivered were as expected by the respondents. The collected results were as presented in the figure 4.4.
Figure 4.4 shows that a majority of 71% of bank customers agreed that their banks delivered services and products to their expectations. Another majority of 71% agreed that they were satisfied with the services their main banks provided to them while majority of 65% agreed that they were satisfied with the products offered by their main banks. A significant 96% agreed that in case their banks were not offering them the services they expected, they would seek those services from another bank.

### 4.4.2 Hindrances to Joining another Bank

The study investigated some of the things that can make customers not join another bank besides their main bank. The results given were as indicated in the figure 4.5.

**Figure 4.5: Hindrances to Joining another Bank**

According to figure 4.5, 62% of customers interviewed agreed that their current commitments with their main banks like loans and credit cards prevented them from seeking alternative banking services with another bank even if the alternative was preferred; 33% disagreed with this while 5% said it was not applicable.

Alternatively, 63% of respondents also agreed that huge bank charges that competitor banks charge would prevent them from joining other banks even if they were preferred. Thirty four percent disagreed while the remaining said it was not applicable.
4.4.3 Ability to Recommend

The study investigated whether respondents could be able to recommend their main bank to other people so as to establish whether they were confident that their bank was worth being sought. The results were as shown in figure 4.6.

Figure 4.6: Ability to Recommend my Main Bank

The study found out that 50% of the respondents agreed that based on the satisfaction experience they had with their banks, they would positively recommend it to other people. 43% of respondents disagreed that based on the satisfaction experience they got, they would positively recommend their bank to other persons while the remaining 7% chose the not applicable option.

4.4.4 Relationship of Satisfaction and Patronage of Main Bank

The study also aimed to establish whether the level of satisfaction of customers determined their patronage of the bank. The results collected were as presented in the figure 4.7.

Figure 4.7: Relationship of Satisfaction and Patronage of Main Bank
Majority of 96% agreed that their level of satisfaction with their main bank significantly determines their continued patronage of their main bank while the remaining 4% disagreed.

4.4.5 Likelihood of Being Loyal

Concerning whether respondents were likely to retain their current banking relationship with their main banks due to the satisfaction they received from them, the study collected the results shown in figure 4.8.

![Figure 4.8: Likelihood of Being Loyal](chart)

From these results, it is evident that 70% of respondents agreed that they were likely to retain their current banking relationships with their main banks because of the satisfaction they derive from them. Out of the remaining respondents, 1% said it was not applicable while the remaining disagreed that they are likely to retain the current relationship.

4.4.6 Overall Satisfaction

The study also investigated whether overall respondents were satisfied with their main banks. The collected results were as presented in figure 4.9.
Figure 4.9: Overall Satisfaction

The study established that 71\% of the respondents agreed that they were overall satisfied with their main bank while a small number of 28\% disagreed.

4.5 Quality of Services Offered

The second research question aimed to establish how quality of services offered by a bank influences customer loyalty to those banks.

4.5.1 Delivery of Prompt Services

The study investigated whether employees in respondents’ main banks delivered prompt services whenever customers made contact with them. The findings were as shown in figure 4.10.
The figure shows that majority of 48% agreed that employees of respondents’ main banks delivered prompt services whenever the respondent made contact with the bank. 45% disagreed with this observation while 7% said it was not applicable.

4.5.2 Responsiveness and Empathy of Staff

The study also investigated whether staff of customers’ main banks was responsive, assuring and empathetic to their customers while delivering services and the collected results were as presented in figure 4.11.

![Figure 4.11: Responsiveness and Empathy of Staff](image)

Majority of 53% of respondents agreed while 46% disagreed that staff of their main banks were responsive, assuring and empathetic when delivering services to their customers. Only 1% of respondents chose the not-applicable option.

4.5.3 Better Performing Operating Systems

The study investigated whether the operating system of the respondents’ main banks performed optimally towards respondents. The results collected showed that 54% agreed while 43% disagreed that in overall the operating system in place at their main banks performed optimally. These results are shown in figure 4.12 below.
4.5.4 Adequacy, Reliability, Consistency and Influence of Services Delivered

The study also aimed to establish the adequacy of services customers received from their main banks, how reliable these services are, whether the services are consistent and available as desired and whether the quality of the services influences commitment to the bank. The results collected were all presented in figure 4.13.

Figure 4.12: Operating System Performs Optimally

Figure 4.13: Adequacy, Reliability, Consistency and Influence Of Services Delivered
Majority of 56% respondents agreed that they consider the services provided by their main bank to be adequate while 40% disagreed with this. Another 55% agreed that they considered their main banks as reliable when delivering services to their customers while 42% disagreed with that and 3% were of the not applicable opinion. Concerning whether the services of the main bank could be considered consistent and available as promised by the bank during its proposition to customers, the study established that 50% agreed while 48% disagreed and 2% said it was not applicable. On whether the quality of service would strongly influence customers’ commitment to their main bank, the study found that majority of 94% respondents agreed.

4.5.5 Satisfactory Information from Bank

The study investigated whether the overall quality of information received from their main banks was considered satisfactory to them and the results collected in response to this were as presented in figure 4.14.

![Figure 4.14: Satisfactory Information from Bank](image)

Fifty percent of respondents agreed that overall the quality of information they received from their banks was satisfactory. Out of the remaining a significant 46% had a contrary opinion since they disagreed with the 50% while the remaining 4% said the variables were not applicable.

4.5.6 Confidentiality when Handling Information

The study also enquired whether respondents’ main banks handled their confidential information with precaution. The collected results were as presented in figure 4.15.
Fifty-eight percent of the respondents agreed that their main banks took extra precaution while handling their confidential information while only 40% disagreed. This indicates how the banks are focused on enhancing confidentiality of their clients’ information hence protecting customers from possible incidences of fraud.

4.5.7 Security of Systems Used

The study also aimed to establish how secure the systems used by main banks were so as to determine whether they offered services that were of the desired quality. The findings were as presented in the figure 4.16.

As indicated in figure 4.16, the study found a tie between those who agreed and those who disagreed. 49% agreed while another 49% disagreed that in overall, the systems used by customers’ main banks were secure. Two percent however said it was not applicable.
This shows that security of systems used by banks depended on the bank or the person being served and that there were no overall secure bank systems or overall unsecure banks’ systems.

4.5.8  Sincerity in Solving Problems

The study also investigated the extent to which customers’ main bank had sincere interest in solving customers’ problems. The results as presented in figure 4.17 shows that majority of 50% disagree while 47% respondents agree that when they have problems their main banks have sincere interest in solving them. Three percent were of the not-applicable opinion concerning the relationship of these variables.

![Figure 4.17: Sincerity in Solving Problems](image-url)

4.6 Customer Trust

The third research question investigated how consumer trust influenced customer loyalty in banks. The specific variables investigated under trust were as presented in the subsequent subheadings.

4.6.1  Effect of trust on Patronage of Banks

The study investigated whether trust among respondents contributed to their continued patronage of their main banks. The collected findings were as presented in figure 4.18.
It was found that 61% of respondents agreed that trust in their banks greatly contributed to their continued patronage of their main banks while 34% disagreed. Only 5% chose the not applicable option concerning this relationship.

### 4.6.2 Confidence in Using Services

The study also investigated how confident customers felt about using the services of their bank repeatedly. This was aimed at establishing whether the customers trusted their banks fully to have repeat use of their services with confidence. The collected results were as presented in table 4.5.

**Table 4.5: Confidence in Using Banks Services**

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Slightly agree</th>
<th>Slightly disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Not Applicable</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>In overall, I feel confident enough to repeatedly use the services of my main bank Frequency</td>
<td>5</td>
<td>17</td>
<td>19</td>
<td>15</td>
<td>6</td>
<td>8</td>
<td>3</td>
<td>73</td>
</tr>
<tr>
<td>Percent age (%)</td>
<td>7</td>
<td>23</td>
<td>26</td>
<td>21</td>
<td>8</td>
<td>11</td>
<td>4</td>
<td>100</td>
</tr>
</tbody>
</table>

As indicated in table 4.5, a majority of 56% respondents agreed while 40% respondents disagreed that in overall they felt confident enough to repeatedly use the services of their main banks. This indicates that majority of banks customers trusted their banks hence the repeated use of their services with confidence.
4.6.3 Positive Expectations

As to whether respondents believed that the actions of their main bank on their customers’ transactions would yield positive outcomes, the study found the results in table 4.6.

Table 4.6: Positive expectations

<table>
<thead>
<tr>
<th>I believe the actions of my main bank, regarding my transactions with them, will yield positive outcomes for me</th>
<th>Fr</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Agree</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Slightly agree</td>
<td>24</td>
<td>34</td>
</tr>
<tr>
<td>Slightly disagree</td>
<td>22</td>
<td>30</td>
</tr>
<tr>
<td>Disagree</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Not Applicable</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>73</td>
<td>100</td>
</tr>
</tbody>
</table>

Majority of 51% respondents agreed that they believed that the actions of their main banks regarding their transactions would yield positive outcomes. Only 46% disagreed with this while the remainder chose the N/A option. This indicates that customers had trusted their banks to an extent they knew that their transactions with the banks were likely to yield positive outcomes.

4.6.4 Trust in Main Banks

The study also investigated the extent to which bank customers trusted their main banks. This was done by investigating the extent to which main banks were credible and of high integrity; the extent to which the banks acted in the best interest of the customer and the capacity with which the main bank delivered its promises to its customers. The findings were as presented in figure 4.19.
Concerning whether the capacity of respondents’ main banks to deliver on its promises to its customers greatly influenced customers’ continued patronage of the bank, 55% agreed while 41% disagreed. This means that customers trust in a bank was built around continued meeting of the banks promises to its customers. It is the meeting of these promises that influenced customers to be loyal to the bank.

Majority of 54% also agreed that their main bank acted in their best interest whenever they transacted with the bank; only 43% disagreed. This indicates that banks were interested in building the trust of customers in their services by acting in the best interest of customers.

Fifty percent of respondents also believed that their main bank was credible and of high integrity while 47% disagreed. This also gives another reason why customers trusted their banks hence their loyalty.

4.6.5 Need to Control Bank

Concerning whether customers felt the need to monitor or control the actions of their banks with respect to the transactions they make with the bank, the findings in figure 4.20 were collected.
Figure 4.20: Need to Control Main Bank

Figure 4.20 shows that majority of the respondents, 94% agreed that they feel no need to monitor or control the actions of their main banks regarding transactions they carry out with them. This explains the trust customers have in their banks as established in figure 4.19.

4.6.6 Future of my Bank

Table 4.7 shows the results collected concerning whether customers believed that their main banks were able to continue meeting their obligations towards their customers in the foreseeable future.

Table 4.7: Ability to Meet Future Needs

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Slightly agree</th>
<th>Slightly disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Not Applicable</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I believe my main bank has the ability to continue to meet its obligations towards me into the foreseeable future</td>
<td>Fr eq.</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>11</td>
<td>22</td>
<td>18</td>
<td>11</td>
<td>7</td>
<td>2</td>
<td>73</td>
</tr>
</tbody>
</table>

The total of those agreeing that they believed their main bank had the ability to continue to meet its obligations to their customers into the foreseeable future was 47% while those who disagreed were 50%. This meant that most customers did not believe that their banks had the ability to continue meeting their obligations to their customers in the foreseeable future.
4.6.7 Ability to Recommend my Bank

The study investigated whether respondents could recommend their main banks to other people as a result of the trust they have in their banks. The results were as presented in table 4.8.

Table 4.8: Ability to Recommend my Bank

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Slightly agree</th>
<th>Slightly disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Not Applicable</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on my positive evaluation of the trust I have in a bank, I would recommend it to another person</td>
<td>Fre</td>
<td>1</td>
<td>12</td>
<td>23</td>
<td>22</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>%</td>
<td>1</td>
<td>16</td>
<td>32</td>
<td>30</td>
<td>15</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Majority of 49% agreed that they would recommend their main banks to other persons as a result of the positive evaluation of trust they have in their banks. 48% of the respondents said that they would not recommend their main banks to other persons.

4.6.8 Possibility of Leaving the Bank

To sum up on the extent to which trust had created loyalty, the study investigated the extent to which respondents could shift their loyalty to other banks given better offers than they receive from their main banks. The findings were tabulated as shown in table 4.9.

Table 4.9: Possibility of Leaving if Given Better Offers

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Slightly agree</th>
<th>Slightly disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Not Applicable</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Even with a better offer from another bank I am highly unlikely to change my current banking arrangement with my main bank</td>
<td>Fre</td>
<td>1</td>
<td>11</td>
<td>22</td>
<td>18</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>%</td>
<td>1</td>
<td>15</td>
<td>30</td>
<td>26</td>
<td>15</td>
<td>10</td>
<td>3</td>
</tr>
</tbody>
</table>
The study found that majority of 51% disagreed with the point that they would not leave their main banks even with better offers from other banks while 46% said they would not leave to other banks even if those banks offered better offers.

4.7 Significant Determinants of Loyalty

In summarizing, the study investigated the main things that customers considered would significantly determine their loyalty to a bank. Among the most cited items were: reduced (minimum) charges on transactions and services offered; low interest rates on loans; relatively high interests on savings; quality customer service; giving value for my money; services that are trustworthy, reliable and honest; credible and confidential ATM transactions; high responsiveness, efficiency and timely updates; better products and convenience; better employee-customer relationships and enhanced accessibility to banking halls.

4.8 Summary of Chapter

This chapter has presented the results and findings the study collected after conducting the actual study. The chapter has presented these findings in form of figures and tables. The figures used are pie and bar charts. The chapter presents the results and findings based on the research questions the study aimed to address.

The next chapter, chapter five, will present the discussions of the findings and results in chapter four as well as present the summary of the study, the conclusions made from the findings of the study and the recommendations for the study.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of study, the discussions of the study, the conclusions and the recommendations the study makes for policy implementation as well as for further study. These sections are discussed according to the occurrence of the research questions of this study.

5.2 Summary of the Study

This study focused on establishing the determinants of customer loyalty among the retail banking sector in Kenya. The research questions under study to address this purpose were: How customer satisfaction influenced customer loyalty to a bank?; How service quality influenced customer loyalty to a bank?; and How consumer trust influenced customer loyalty to a bank? Literature was reviewed to inform the extent to which the topic of customer loyalty had been explored across the world as well as show the gaps that needed to be addressed by the study. Descriptive research design was used to collect relevant results that would address the study’s research questions. The target population which comprised customers of the 43 retail banks in Kenya was sampled using convenience sampling to arrive at a sample size of 96 respondents. A structured questionnaire was used to collect the desired responses. The collected findings were then analyzed using descriptive statistics and presentation of the findings done using tables and bar and pie charts.

Concerning extent to which customer satisfaction determined customer loyalty; the results show that overall customers remained loyal to banks that offered them satisfactory services. Majority of 71% respondents agreed that their banks delivered services and products to their expectations; 71% respondents agreed that they were satisfied with the services their main banks provided them while 65% said that products offered by their banks were satisfactory. Majority of 96% of respondents agreed that in case their banks were not offering them services according to their expectation, they would seek those services from another bank. It was also found that credit cards and loans also enhanced loyalty based on 62% support. Majority of 63% of respondents also agreed that huge bank
charges charged by competitor banks prevent them from joining such banks even if they were preferred. The study also found out that 50% of the respondents agreed that based on the satisfaction experience they had with their banks, they would positively recommend it to other people; 96% agreed that their level of satisfaction with their main bank significantly determined their continued patronage of the bank; and 70% agreed that they were likely to retain their current banking relationships with their main banks due to the satisfaction they get.

Concerning how the quality of services influenced customer loyalty; the study found that majority of 48% respondents agreed that employees in their main banks delivered prompt services whenever customers made contact with the bank; 53% of agreed that staff of their main banks were responsive, assuring and empathic when delivering services to customers; 54% agreed that in overall the operating system in place at their banks performed optimally; 56% agreed that they considered the services provided by their main bank to be adequate and 55% agreed that their main banks were reliable when delivering services to them (customers). Majority of 50% also concurred that the services of their main bank were consistent and available as promised during its proposition.

Majority of 94% respondents agreed that the quality of service would strongly influence customers’ commitment to their main bank; 50% said that information received from their banks was overall satisfactory; 58% concurred that banks took extra precaution while handling their confidential information though it was not evidently clear whether the systems used by customers main banks were secure since the number of those who agreed and those who disagreed were equal at 49%. The study also found that 50% agreed that banks had sincere interest to solve problems customers had with their banks.

Concerning how trust influences loyalty, it was found that 61% of respondents agreed that trust greatly contributed to customers’ continued patronage of their main banks; 56% agreed that overall customers felt confident enough to repeatedly use the services of their banks; 51% said they believed that the actions of their main banks regarding their transactions would yield positive outcomes; 55% opined that their banks’ capacity to deliver on its promises greatly influenced their patronage the bank. 54% agreed that their main bank acted in their best interest whenever they transacted with the bank; 50% also believed that their main bank was credible and of high integrity; 94% respondents felt no need to monitor or control the actions of their main banks regarding the transactions they
make. However, 50% of respondents did not believe that their main bank had the ability to continue to meet its obligations to their customers into the foreseeable future. Majority of 49% would recommend their main banks to other people; and 51% would leave their main banks in case competitor banks offered better offers.

5.3 Discussions

5.3.1 Customer Satisfaction

The study established that Kenyan retail banks deliver services according to their customers’ expectations meaning that the services or products banks offer to their customers meet their needs hence satisfy the customers. This concurs with Kotler’s (2000) definition of satisfaction that satisfaction refers to delivering services that meet the users’ expectations. The study further establishes that banks delivered services and products that were satisfactory to their customers. This means that the services and products met the needs of customers fully or to a large extent hence customers did not have a reason to look for alternative satisfactory services and products from other banks. This implies that the satisfaction led to customers committing to their banks more hence becoming loyal. In fact, the study established that satisfied customers continued with patronage of their banks. This tallies the argument by Heskett and Sasser (2010); Chi and Qu (2008); Eggert and Ulaga (2002); Ehigie (2006); Casalo, Flavian and Guinaliu (2008); and Lam and Burton (2006) that customer satisfaction is a great determinant of loyalty such that when customers are satisfied with the items or services delivered to them, they will have a higher tendency of being loyal. The discussions also confirm Ehigie’s (2006) opinion that satisfied customers exhibit high level of loyalty to their banks. To further emphasize the importance of satisfaction of customers to their continued patronage of the services of a bank, the study established that customers are likely to seek services from another bank if they are not satisfied with their current bank. This indicates how much value customers put in their satisfaction as a determinant to staying with a particular bank. This is why Heskett and Sasser (2010); Chi and Qu (2008); and Eggert and Ulaga (2002) grant satisfaction significant responsibility towards influencing loyalty more than any other factor.

The study also established that commitments like loans and credit cards prevented customers from seeking services from other banks. This simply identifies loans and credit cards as some of the satisfying items banks offer to their customers to enhance their
loyalty. It should be noted that credit cards and loan facilities are some of the products that banks provide to their customers for convenient access to their finances and additional finances respectively without making the customers feel insecure financially. As such, loans and credit cards offer satisfaction to bank customers in terms of convenient access to finances hence enhanced loyalty. From this, one can deduce that as much as retail banks offer products and services that meet customers’ expectation and satisfaction, they directly enhance loyalty of the affected customers. This further substantiates the arguments by Lam and Burton (2006); Eggert and Ulaga (2002); Dagger and David (2012); Mittal and Kamakura (2001) among others that customer satisfaction leads to customer loyalty.

This study has also established that retail bank customers agreed that huge bank charges that competitor banks charge would prevent them from joining such banks. This simply shows that customers are concerned about the charges they are charged and as a matter of fact these charges significantly determine whether they would join a given bank or not. Putting these charges in the context of satisfaction, it means that huge charges are not satisfying to customers hence they will leave whenever these charges are levied on them. This simply indicates that customers of retail banks in Kenya will only remain loyal as long as the charges demanded from them satisfy them and justify the services they receive. This concurs with the argument of Fornell et al. (2006) that transaction costs are a great determinant of customer satisfaction hence loyalty.

To confirm that customers of retail banks in Kenya were satisfied with their banks, most respondents concurred that they can refer other people to their banks. To confirm the satisfaction, the customers go further to assert that their satisfaction was the drive behind continued patronage of their banks; and that customers are likely to remain loyal to banks as long as they continue to be satisfied with the banks’ services. As much as this overemphasizes the importance of satisfaction to loyalty, it also reveals that banks had a task of satisfying their customers if loyalty was anything expected from them. This also agrees with the findings presented by Heskett and Sasser (2010); Chi and Qu (2008); that satisfied customers act as an influence to attracting new customers as well as contribute to building positive image of the company since they speak of it positively.
5.3.2 Quality of Services Offered

The fact that employees of retail banks in Kenya deliver prompt services to their customers means that banks adequately understand the value of quality service delivery and implementation. Prompt services refer to those services that to a significant extent meet customers’ expectation of quality services. As such, flexible, reliable, timely and responsive services would be prompt. In fact the study, with an aim of explaining the conduct of employees in delivering these prompt services, established that bank employees were responsive assuring and emphatic when offering their services to customers. These factors simply define Jain and Gupta’s (2004) consideration of what quality services ought to be when they argued that quality could be determined by the dimensions; tangibles, responsiveness, assurance, empathy and reliability of the service/product.

This discussion infers that employees in retail banks were determined to offer better (quality) customer contact services. It should be noted that Sureshchandar et al. (2003) identified the human element of service delivery as one mark of quality service. Parasuraman et al. (2005) also identified responsiveness and contact as another indicator of quality services. This therefore means that the prompt services delivered to customers, the responsiveness, assurance and the empathy are indicators of quality services delivered to customers which according to Lewis and Soureli’s (2006) discussion enhance loyalty of customers to banks. This in reality is true based on the fact that customers feel well treated and taken care of if the services they receive are focused to them and offer them positive experiences that are above-average.

The optimal performance of the operating systems used in banks was another indicator of quality services offered by banks. Optimal performance of the operation system means that the system’s performance offered adequate, timely and reliable services to customers hence giving them a sense of quality. This concurs with the observation by Sureshchandar et al.’s (2003) that optimally performing systems offer quality services. The study further establishes that customers agree that the services given (by the employees and the operating systems) are adequate, reliable and consistent to an extent they influence their commitment to the bank. This means that when customers feel that the services they receive are of high quality, they offer enhanced commitment (become loyal) to the bank.
This discussion is similar to the one presented by Lewis and Soureli (2006) that quality services enhanced customer loyalty to banks.

Retail banks in Kenya are also determined to offer quality services to their customers as a way of retaining them. This is attributed to the fact that information customers received from their banks was satisfactory; that banks ensured confidentiality when handling customers’ information; that the systems the banks used were secure for customers; and that retail banks were sincere in solving customers’ problems. Since banks majorly deal in services, quality services would be depicted in the uniqueness of the services, the security and confidentiality and the ability to inform the customer adequately as has been explained from the findings. These factors then, certainly, indicate that retail banks significantly focused on offering confidentiality, integrity, security, full disclosure of customers’ information under the banks custody-signs of quality services. When customers are provided with such quality services, it is less likely that they will leave a bank since they can get the quality services as they desired. All these arguments certainly concur with the discussion pioneered by Ganguli and Roy (2011) in their study where they found that service quality was shaped by technology-based banking services, customer service, technology security and information quality, technology convenience and technology usage ease and reliability. Ganguli and Roy (2011) further argued that together, all these factors enhance customer loyalty. Lewis and Soureli (2006) also asserted that quality services enhanced customer loyalty.

5.3.3 Customer Trust

Indeed it is clear that trust significantly affected customers’ continued patronage of retail banks in Kenya. This means that when customers held trust towards the services a given bank offered them they were likely to continue using the services of that bank. This may be attributed to the fact that a trustworthy bank was considered to offer reliable services that were of value to customers hence the continued patronage. This argument confirmed the argument presented by Aydin and Ozer’s (2005) that trust dedicates customers to a service provider (bank). The results revealed that this trust was build around customers’ confidence in using the services of a bank repeatedly and the belief that banks actions on customers’ transactions yields positive outcomes just. These are similar to the implication in Peppers and Rogers’ (2004) proposition that trust is one party’s confidence in the other
relationship members’ reliability, durability and integrity and the belief that its actions are
in the best interest of the customer and will produce positive outcomes.

When customers believe that a bank acts in their best interest and offers credible services
that are of integrity, they will eliminate doubt that the bank can do thinks aimed at their
disadvantage hence develop enhanced trust towards the bank. This argument supports the
opinion of Ramayah and Shahidan (2012) that consumer trust involves customers holding
credibility trust—where the belief that the service provider will deliver as promised was
dominant; and benevolence trust—where the customer believed that the service provider
will act on their best interest and will not take advantage of them. The trust was also build
on the capability of the bank to deliver on its promises to customers just as Peppers and

The study further established that customers saw no need to control or monitor the banks’
actions. This indicates that the trust customers had in their banks was so strong that they
did not have a reason to doubt the banks. It should be noted that customers will only be
disloyal to a bank when they have reason to doubt the services/products of that bank.
Given that Kenyan retail-bank customers do not doubt their banks’ services then they do
not have a reason to leave the bank hence their loyalty. This is the reason as to why the
study established that trust significantly affected customers’ continued patronage of retail
banks in Kenya. This leads to the confirmation of the findings given by Lin and Wang
(2006); Roostika (2011) and Caceres and Paparoidamis (2007) that trust significantly
influences customer loyalty.

As much as customers trusted their banks, they were uncertain whether the banks would
continue to meet their future needs. Customers even said that in case of better offers from
other banks, they would leave their bank even though most of them agreed to recommend
their bank to other people. This shows that trust would lead to customers’ loyalty as long
as the bank gave their customers the best offers than competitors. It also means that if
customers are less likely to trust the future a given bank promises them, they are not
committal on their loyalty to the bank. This is correct if the reference is drawn to the
argument by Lin and Wang (2006), that organizations must have a better strategy to
ensure future services and products are trustworthy to customers so as to enhance their
loyalty. The lack of trust in the future ability of the bank talked about above may be
associated with past experiences that customers have concerning inability of some banks
to meet future needs of their customers; hence they cannot trust future ability of a bank based on the experience. The lack of trust in future ability to meet needs may also be caused by the bank lacking adequate strategy to meet future customer needs.

**Significant determinants of loyalty**

The study also found that some of the significant determinants of customer loyalty include reduced (minimum) charges on transactions and services offered; low interest rates on loans; relatively high interests on savings; quality customer service; giving value for my money; services that are trustworthy, reliable and honest; credible and confidential ATM transactions; high responsiveness, efficiency and timely updates; better products and convenience; better employee-customer relationships and enhanced accessibility to banking halls. These factors can be summarized to resemble the determinants presented by Parasuraman et al. (2005) which include efficiency, system availability, fulfillment, privacy, responsiveness, compensation and contact; those presented by Ganguli and Roy (2011)- technology-based banking services, customer service, technology security and information quality, technology convenience and technology usage ease and reliability; and those presented by Sangeetha and Mahalingam (2011)-perceived service quality, positive recommendations, personal experience, customer engagement, relationship management and security of systems.

**5.4 Conclusions**

The study concludes that Kenyan retail banks deliver services and products to customers’ expectations and that this services and products satisfy customers’ needs hence causing loyalty. Customers would however leave their banks in favor of competitor banks in case their main banks did not offer them the services/products that are satisfactory. Huge bank charges are unsatisfying hence affect loyalty. The study also concludes that satisfied customers are likely to recommend their bank to other people. The study also concludes that as much as customers get satisfaction from a given bank, they will not discontinue their current banking relationships with their main banks.

Concerning influence of quality services on loyalty, the study concluded that the quality of services offered to customers strongly influences their commitment to their banks. This quality is however demonstrated when employees in retail banks in Kenya deliver prompt
services to customers whenever they are sought as well as when the employees are responsive, assuring and emphatic when delivering these services to customers. Retail banks have operating systems that perform optimally to offer better quality services to customers. These banks also provide adequate, reliable and consistent services to their customers. Kenyan retail banks are also noted to be providing overall satisfactory information to their customers. This information was handled with extra precaution due to its confidentiality. However the study also concludes that some banks have secure systems while others have systems that are considered unsecure though in both cases these banks were eager to solve customers’ problems.

Concerning how trust influences loyalty, the study concluded that trust significantly determines customers’ patronage of their banks. Things that build customers’ trust in their banks include banks’ actions which yield positive outcomes to customers and the banks’ ability to act in the best interest of their customers. It is also concluded that Kenyan retail banks are credible and of high integrity hence do not necessarily warrant monitoring or controlling from customers. Most of these banks are considered not to have the ability of continuing to meet their obligations to their customers in the foreseeable future. The study also concludes that the ability of a bank to deliver on its promises to customers greatly influences trust. Trustworthy customers will certainly recommend their bank to other people. It is also concluded that in case other banks gave better offers, customers would be lured to join it at the expense of the current bank.

5.5 Recommendations

5.5.1 Recommendations for Improvements

5.5.1.1 Customer Satisfaction

Based on the stake bank’s products and services play to a customer’s satisfaction, banks should ensure that the products they avail to customers meet their needs hence their satisfaction. This is aimed to avoid losing the customers to competitors as well as encourage the satisfied customer recommend the bank to other people. The provision of such services as credit cards and loans should be enhanced since they contribute to satisfaction. Banks should also charge fair charges since huge charges inhibit entry of new customers even if the bank is preferred.
5.5.1.2 Quality Services

Banks should ensure that the quality of services and products they offer to their customers are good enough to enhance their commitment to the bank. This should be ensured through bank employees delivering prompt services to customers, and by the employees being responsive, assuring and emphatic when handling customers. Banks should also put in place operating systems that perform optimally to ensure quality services to customers. Bank managers should also ensure that the services their banks give to customers are adequate, reliably delivered, consistent and available as promised to customers. Banks should also institute secure systems or measures that will ensure that customers' information are handled with confidentiality as well as be ready and eager to solve employees problems whenever they are presented.

5.5.1.3 Customer Trust

Banks should enhance the provision of services that enhance customers’ trust in the bank because trust significantly affects bank patronage. The banks should also encourage customers to have trust in their services/products; and in any case any of the customers does not have trust in the services/products, he/she should be advised to share his/her concerns so that they can be addressed. Banks should also continue working in the best interest of customers by listening to their needs and interest and where possible adopting or responding to them appropriately. Bank employees should also enhance their credibility and integrity to maintain the trust customers have in them hence avoid unnecessary monitoring and control from customers. Bank managers should also come up with a plan where the bank promises to meet its future obligations to employees as well as works hard to meet these promises. The bank should also stay within competition by giving value for money to customers to prevent the customers from defecting to competitor banks. The bank must always ensure that it inculcates trust in a customer such that the customer is able to recommend the bank to other persons.

5.5.2 Recommendations for Further Study

The study has only discussed three determinants of customer loyalty among Kenyan retail banks as was limited by the scope. It is however important that an exploratory study be undertaken to establish the several factors that affect customer loyalty among retail banks.
in Kenya. This study will reflect the scope to which customer loyalty needs to be looked at within banks.
REFERENCES


Ernst & Young (2010). Understanding Customer Behaviour In Retail Banking: The Impact of the Credit Crisis Across Europe. Ernst & Young.

Ernst & Young. (2010). Retail Banking in Asia Pacific: Pursuing Customer Loyalty. Ernst & Young.


APPENDICES

Appendix I: Cover letter

TO: THE RESPONDENT
FROM: THE RESEARCHER

RE: RESPONDING TO THE ATTACHED QUESTIONNAIRE

I am carrying out a study on The Determinants of Customer Loyalty in the Retail Banking Sector in Nairobi, Kenya. This is in partial fulfillment of the requirement of the Global Executive Masters in Business Administration (GEMBA) degree program at the United States International University. This is an academic research, all the information you provide in this questionnaire will be kept in strict confidential and only used for purposes of this research.

I kindly request for your indulgence in completing the attached questionnaire to the best of your knowledge. Your name or other identifying information are not required on this document, however, if provided, will not appear on any study report or documents thereafter.

Thanking you in advance,

Yours sincerely,

Isabella Manduku

(0722-725409)
Appendix II: Questionnaire

This questionnaire is made up of three short sections that should take only a moment of your time. Kindly fill in your responses by ticking in the appropriate box or writing your answers on the spaces provided.

Thank you.

SECTION A: DEMOGRAPHIC INFORMATION

1. Gender: Male ☐ Female ☐
2. Age _____ years
3. Level of education:
   Primary ☐
   Secondary ☐
   College ☐
   University ☐
   Other ________________________________

4. Which bank is your main service provider? ____________________________
5. For how long have you had a banking relationship with the bank mentioned in question 4 above? ____________________________
6. Do you have more than one banking relationship? Yes ☐ No ☐
7. If yes for question 6 please indicate with how many other banks you have a banking relationship? ____________________________
8. List the key services you engage your main bank in:
   ____________________________
   ____________________________
   ____________________________
   ____________________________


**SECTION B: CUSTOMER SATISFACTION**

*Please indicate whether you agree or disagree with the following statements by placing a tick (✓) in the box which best reflects your opinion:*

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Slightly agree</th>
<th>Slightly disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Not Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.</td>
<td>My main bank delivers to my expectations</td>
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<td>10.</td>
<td>I am satisfied with the services provided by my main bank</td>
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<tr>
<td>11.</td>
<td>I am satisfied with the products offered by my main bank</td>
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<td>12.</td>
<td>My main bank is very convenient in fulfilling my banking needs</td>
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<tr>
<td>13.</td>
<td>I am likely to seek to use the services other banks if not satisfied with my main bank</td>
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<td>14.</td>
<td>High bank charges would prevent me from joining another bank even though it was my preferred bank</td>
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<td>15.</td>
<td>My current commitments with my current main bank eg. loans, credit cards, would prevent me from seeking alternative banking services with another bank even if the alternative was preferred</td>
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<td>16.</td>
<td>Based on my satisfaction experience with my main bank I would positively recommend it to another person</td>
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<td>17.</td>
<td>My level of satisfaction with a bank to a large extent determines my continued patronage of the bank</td>
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<td>18.</td>
<td>I am likely to retain my current banking</td>
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</tbody>
</table>

67
### SECTION C: SERVICE QUALITY

*Please indicate whether you agree or disagree with the following statements by placing a tick (√) in the box which best reflects your opinion:*

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Slightly agree</th>
<th>Slightly disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Not Applicable</th>
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</thead>
<tbody>
<tr>
<td>20.</td>
<td>Employees of my main bank deliver prompt service whenever I make contact with the bank</td>
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<tr>
<td>21.</td>
<td>In overall, the operating systems in place at my main bank perform optimally</td>
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<td>22.</td>
<td>I consider the services provided by my main bank to be adequate</td>
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<td>23.</td>
<td>I consider my main bank as reliable when delivering its services to me</td>
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<td>24.</td>
<td>The staff of my main bank are responsive, assuring and empathetic when delivering services to me</td>
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<td>25.</td>
<td>The services of my main bank can be considered to be consistent and available as promised in their proposition to its customers</td>
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<td>26.</td>
<td>The quality of service would strongly influence my commitment to my main</td>
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**SECTION D: CUSTOMER TRUST**

*Please indicate whether you agree or disagree with the following statements by placing a tick (✓) in the box which best reflects your opinion:*

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Slightly agree</th>
<th>Slightly disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Not Applicable</th>
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</thead>
<tbody>
<tr>
<td>27.</td>
<td>In overall, the information quality I receive from my main bank can be considered as satisfactory</td>
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<td>28.</td>
<td>My main bank takes extra precaution when handling my confidential information</td>
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<td>29.</td>
<td>In overall, the systems used by my main bank are secure</td>
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<td>30.</td>
<td>When I have a problem, my main bank has a sincere interest in solving it</td>
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</table>

<table>
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<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Slightly agree</th>
<th>Slightly disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Not Applicable</th>
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</thead>
<tbody>
<tr>
<td>31.</td>
<td>Trust contributes greatly to my continued patronage of my main bank</td>
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<td>32.</td>
<td>In overall, I feel confident enough to repeatedly use the services of my main bank</td>
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<td>33.</td>
<td>I believe the actions of my main bank, regarding my transactions with them, will yield positive outcomes for me</td>
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<td>34.</td>
<td>I believe my main bank is a credible bank of high integrity</td>
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<td>35.</td>
<td>My main bank acts in my best interest whenever I transact with them</td>
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</table>
36. The capacity of my main bank to deliver on its promises to its customers, greatly influences my continued patronage of the bank

37. I feel no need to monitor or control the actions of my main banker regarding transactions that I carry out through them.

38. I believe my main banker has the ability to continue to meet its obligations towards me into the foreseeable future.

39. Based on my positive evaluation of the trust I have in a bank, I would recommend it to another person.

40. Even with a better offer from another bank I am highly unlikely to change my current banking arrangement with my main banker.

41. What four things would significantly determine your loyalty to a bank?

Thank you for your time and participation