

**DETERMINANTS OF CUSTOMER RETENTION IN KENYAN
COMMERCIAL BANKS: A CASE OF KCB BANK KENYA
LIMITED**

BY

PATRICIA W. CHUANI

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SUMMER 2017

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PATRICIA W. CHUANI

**A Research Project Report Submitted to the Chandaria School of
Business in Partial Fulfillment of the Requirement for the Degree of
Masters of Business Administration (MBA)**

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SUMMER 2017

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: -----

Patricia W. Chuani (ID. 601478)

Date

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

Signed: -----

Dr. Joseph Ngugi Kamau

Date

Signed: -----

Dean, Chandaria School of Business

Date

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ABSTRACT

The purpose of the study was to investigate various factors that determined customer retention rates at KCB Bank Kenya Limited (KCB). To achieve this, the study sought to analyze the effect of service quality levels on customer retention, to investigate the effect of service or product delivery channels on customer retention and finally examined the effect of service cost on customer retention rates at KCB.

The study adopted a descriptive research design using a quantitative methodology using KCB as the case of the study. The population of the study was drawn from KCB customers with accounts that had been both active in May and June 2017. Using a stratified random sampling technique, customers were selected for use in the study. Data was collected using a questionnaire that was personally administered by the researcher for ease of data collection and for purposes of explaining contents of the questionnaire to customers. Data collected was edited and coded in SmartPLS 2.0 and SPSS vs. 23 for analysis using descriptive statistics such as means, modes, minimums, maximums and frequency distributions. Analyzed data was presented using tables and figures.

Key findings of this study revealed that most of KCB customers perceived customer service quality levels to be good. Consequently this enhanced the bank's customer retention rates. It was also viewed that the bank boasted of customer responsive products and services. The use of technology in service delivery was also popular amongst customers. A large majority of customers expressed that they enjoyed a good relationship with the bank; the bank was reliable, staff friendly and helpful. The relationship between the bank and customers was also key in improving customer retention rates.

Distribution channels had a positive relationship with customer retention rates. The availability of multiple product distribution channels improved customer retention rates. The study revealed that staff at branches were friendly, the use and accessibility of technologies such as mobile phones, ATMs and the internet further increased retention. Others factors that enhanced retention include faster customer service delivery at branches as well as neat branches, customer friendly and knowledgeable employees.

The cost of services is also a major significant factor influencing customer retention at KCB. Customers perceived charges at KCB to be average and fair. The findings show that overall customers incurred average costs in accessing banking services and products at KCB. Nevertheless, customers also significantly opined that the queues at KCB are very long which leads to them wasting a lot of time, and that KCB charges to access services via platforms such mobile phone are too high.

The findings on retention revealed that a majority of customers are likely to say positive things about KCB to other people and recommend KCB to someone who seeks their advice. This study concluded that there exists a positive relationship between the levels of customer service and customer retention rates. The higher the customer service quality levels the higher the retention rate for KCB customers. The study concluded that use of technology in delivery of banking products and services enhances customer retention rates. The technologies in use include use of mobile telephony, internet banking, automated teller machines (ATM) and Point of Sale (POS) machines. While technology use in service delivery is key, the use of branches still remains vital for customer service delivery.

This study recommended that KCB should continually improve its customer service levels. This can be done through training of employees to be fast, knowledgeable and friendly to customers. In addition, the study recommended that KCB continually invests in modern, new and innovative platforms to deliver banking products and services; multichannel delivery of services and products to enhance customer retention rates. This study recommended that substantial customer awareness and education campaigns be launched on the use of Mtaani agents. Finally, KCB should put in place strategies to reduce long queues in branches, initiatives which have already commenced by implementing queuing systems.

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ACRONYMS AND ABBREVIATIONS

ATM	Automated Teller Machine
CR	Composite Reliability
AVE	Average Variance Extracted
KCB	KCB Bank Kenya Limited
PLS	Partial Least Squares
POS	Point of Sale
SMS	Short Message Service
SEM	Structural Equation Modelling
SERVQUAL	Service Quality Assessment

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the study

Mohd Kassim (2007) investigated the factors affecting customer retention in the UAE banking sector. In this regard, the researcher focused on factors such as satisfaction, perceived service quality, and image. Consumers were more likely to retain the bank as its provider if they enjoyed satisfactory services. The data used in the research was collected from customers in retail banking sector. Clients in the UAE were greatly influenced by the image of the banking institution. The study also concluded that organizations with poor reputations experience greater rates of attrition.

Cohen, Gan, Yong, and Choong (2007) discussed the impact of policies that determined customer retention in New Zealand. The researcher also examined whether gender differences had any bearing on customer loyalty. According to Cohen *et al.*, (2007) customer retention by banks in New Zealand is a key competitive strategy that is adopted. Banks that had higher levels of customer retention were more profitable and stable than those with lower ratios of customer retention. Cohen *et al.*, (2007) found that factors such as customer satisfaction, switching costs, and a good corporate image are some of the most important factors influencing customer loyalty levels in New Zealand.

Msoka and Msoka (2014), in a study on determinants of customer retention in Tanzanian banks, established that satisfaction is vital in making customers remain and continue to use the services of the same bank. The study also revealed that customers are satisfied through staff kindness, adequate information, timely information, well-handled complaints and better prices in banks products and services. Customer satisfaction was a great influence on the banks' customer retention. The study recommended that in order to retain customers, banks in Tanzania should establish minimum standards based on customer expectations, banks should control their networks to ensure reliability and cater for the network's failure especially at ATMs.

The study further recommended that bank employees should be willing to help customers and provide quick services to them, use the quality products as a tool to satisfy and retain their customers. Other recommendations included, pricing to be incorporated in the theories of customer retention to enhance satisfaction, adopt technology and deploy

Customer Relationship Managers (CRMs), to efficiently serve a large customer base (Msoka & Msoka, 2014).

Rootman, et al. (2011) discussed the significance of understanding customer retention and relationship marketing. The study concluded that customer retention contributes to profitability. Rootman et al. (2011) also noted that banking institutions in South Africa faced intense competition from peers, outsiders and other substitute institutions. Consequently, customer retention by banks was key and critical. Rootman et al., (2011) noted that some of the factors that influenced customer retention in commercial banks include: prices of products and services, ethical behavior by banks, communication strategies and levels of service quality. It was established in a Banking Industry study in Accra, customer retention, has become an essential phenomenon, since this sector has witnessed considerable competition, growth and change both domestic and globally (Inkumsah, 2013).

Auka, Bosire, and Matern (2013) examined the impact of service quality on customer retention. The researchers focused on the levels of customer loyalty in Kenyan retail banks. In this regard, they collected data from 384 current clients of commercial banks. The researchers examined outcomes with regards to empathy, assurance, responsiveness, reliability, and tangibility. Auka, Bosire, and Matern (2013) found that service quality had a considerable impact on customer loyalty. Consequently, bank managers must improve service quality to create and sustain customer loyalty.

Wangari (2012), Wanjau (2013) and Mbithi (2013) observed that the Kenyan banking sector was very competitive. In addition to competition among the 43 licensed commercial banks in Kenya, there was intense competition in the sector from the fast growing and expanding Microfinance institutions, loan sharks, independent financial services providers, Cooperative Societies and even international banking institutions. They subsequently noted that customer retention strategies are integral to the growth, expansion and profitability of commercial banks in Kenya. Furthermore, Wangari (2012), Wanjau (2013) and Mbithi (2013) noted that most banks in Kenya had not developed appropriate customer retention strategies despite the immense competition in the sector.

In a study on banks in Thika town in Kenya, Siele and Muturi (2016) concluded that innovation of financial products, has an influence on customer retention in Kenyan

commercial banks. It was found that a lack of innovations in financial products has an effect of causing customers to leave their bank. These findings led the two researchers to a good indication that financial innovations help to retain the customers in banks. They also established that costs and availability of credit card, debit cards, automatic teller machine, personal loans and mortgage facilities were also found to be key determinants of customer retention in commercial banks.

Drucker (2007) one of the most respected management and marketing scholars famously stated that “the sole purpose of a business was to create a customer”. This statement has been debated extensively and researched with little agreement on how to retain customers. Wanjau (2013) noted that the primary objective of the firm is to generate revenues. On the other hand, revenue generation is created from two major groups: repeat customers and new customers. Therefore, firms have the overall objective to attract and retain new customers.

Consensus has been achieved that attracting a new customer is far more expensive than maintaining an existing customer. The consensus was triggered by Dawkins and Reichheld (1990) research whose findings were that a 5 per cent increase in customer retention generated an increase in customer net present value of between 25 per cent and 95 per cent across a wide range of business environments. Gupta, Lehman and Stuart (2004) on the other hand found that a 1% increase in customer retention had a 5 times effect on the firm value, in comparison to the 1% change in discount rate and cost of capital. This indicates that customer retention is key to organizational success and sustainability. Consequently, firms and business have the responsibility to invest in their current customers while seeking new customers in the market. Ang and Buttle (2006) noted that customers just like products and services have a product cycle. Firms must thus take cognizance of these cycles and develop strategies to manage customer cycles with the ultimate goal of increasing the value of customers to the business.

Not all institutions have been able to develop appropriate customer retention strategies and programs. According to Rootman, Tait, and Sharp (2011), most companies across the globe have focused their attention in developing attractive products, effecting marketing strategies but with little focus on customer retention. Institutions are more focused on customer satisfaction at the expense of customer retention. To develop appropriate customer retention strategies, firms have to acquire information to gain in-depth knowledge

and expertise on customer needs and behaviors with the aim of establishing long term relationships with customers. The physical and emotional attachment that is cultivated through these relationships, leads to customer loyalty and customer retention in the long run (Wanjau, 2013).

Cohen *et al.*, (2007) in New Zealand, Afsar *et al.*, (2010) and Msoka and Msoka (2014) in Tanzania noted that the financial sector is a very competitive sector of the economy. Banks and other financial institutions not only have to contend with each other as competitors but have also to contend with other financial service providers such as non-banking financial institutions, mortgage companies, microfinance institutions, shylocks and international financial institutions. This has led to increased calls in customer relationship management systems to stem customer attrition in the banking sector, and to also enhance customer loyalty and customer retention. Furthermore, the ease of replication of banking products and services has led to increased efforts to enhance customer retention.

KCB Bank Kenya Limited (KCB) formerly referred to as Kenya Commercial Bank Limited is Kenya's largest bank in asset and branches network with a total Asset value of over Kenya Shillings 600 billion. The bank has its headquarters in Nairobi Kenya, with subsidiaries in Burundi, Rwanda, South Sudan, Tanzania and Uganda. The bank traces its origins to the National Bank of India established in 1896 in the Kenyan Coastal town of Mombasa. The merger of Grindlays and National bank in 1958 gave rise to National Grindlays Bank of India, which changed to Kenya Commercial Bank Limited in 1970 when the Kenyan government acquired shareholding. The bank is listed in the Nairobi Securities Exchange with the Government being the largest shareholders with a 17.5% stake in the business while National Social Security Fund is second with a 7.6% stake in the business.

The bank has 12 branches in Tanzania, 20 branches in South Sudan, 14 branches in Uganda and 11 branches in Rwanda, with a total of over 2.5 million bank accounts. The total human resource of the company is about 7,500 employees.

1.2 Statement of the Problem

Retention is the activity that an organization undertakes in order to reduce customer defections. Successful customer retention commences with the first contact an organization has with a customer and continues throughout the entire lifetime of a relationship. A firm's

ability to interest and retain new customers, is not only related to its product or services, but strongly related to the way it serves its existing customers and the reputation it creates within and across the marketplace. Customer retention is an assessment of the product and service quality provided by a business that measures the level of loyal its customers (Munyiri, 2014). Creating a customer was initially regarded as the solitary purpose of a business. However, today customer retention is now regarded important because it has become increasingly difficult for firms to assume that there exists an unlimited customer base (Munyiri, 2014).

KCB's monthly account attrition ranges between 6,000 and 7,000 accounts (KCB, 2015). Over the years the number of accounts closed vis-à-vis the number of accounts opened within a month at KCB continued to rise. In 2013, the organization had a ratio of closed account to opened accounts of 1: 5.38. While in 2015, the ratio of closed to opened accounts was 0.1: 1 showing that retention strategies are gradually paying off (KCB, 2015). The low account retention is mainly in the salaried savings account product which form 26% of accounts closed (KCB, 2013). The percentage of the number of closed accounts over the number of accounts opened in any given month was about 19% (KCB, 2015). With a majority of those who closed their accounts being new clients and salaried account holders. This statistics presented a gap in the customer retention strategies for the bank. Despite there being a problem in KCB, few studies have focused on unearthing the factors contributing to customer attrition at KCB. Nevertheless, some studies have investigated the retention strategies in commercial banks (Wangari, 2012; Wanjau, 2013 & Mbithi, 2013) in Kenya. These studies were conducted in other banks i.e. Barclays Bank and National bank. Msoka and Msoka (2014) note that there are existing researches about customer service in the banking industry around the world, but there are no clear conclusions as to the most important customer service dimensions and strategies for satisfying bank customers in order to retain them.

1.3 Purpose of the study

The purpose of this study was to investigate the determinants of customer retention in KCB Bank Kenya Limited.

1.4 Research Questions

- 1.4.1** To what extent was the effect of customer service quality on customer retention at KCB?
- 1.4.2** To what extent was the influence of distribution channels on customer retention at KCB?
- 1.4.3** What was the effect of the costs of banking services on customer retention at KCB?

1.5 Significance of the Study

1.5.1 KCB Management and other Bankers

The management of KCB can find this study useful in obtaining information on some of the causes and nature of customer attrition. In addition, the management can form policy alternatives and strategies to improve customer retention. Bank managers from other banks can find this study useful in formulating and improving customer retention mechanisms and strategies. Specifically, bank managers can draw from the findings of this study to inform policy and strategy formulation on customer retention.

1.5.2 Policy Matters

Banks and other financial institutions are crucial to economic growth and prosperity. Subsequently, the government takes keen supervision on the financial sector. The government can thus use this study to identify causes of customer attrition in KCB bank and how this attrition affects other banks. Consequently, the government can develop policies aimed at enhancing customer retention in banks. The public can identify some of the major factors they should consider in selecting banks. Furthermore, the change of banks by a customer can be made on the basis on factual data and information on the most important factors to consider.

1.5.3 Academicians and other scholars

This study addresses a research gap which was of importance to the academia. In addition, this study is a base for further studies and research on customer retention. Finally, the study will be a source of literature for future researchers.

1.6 Scope of the Study

This study was conducted in KCB Branches in Nairobi, Rift Valley, Western and Coast Regions in Kenya. The study duration was May and June 2017. According to internal statistics in KCB, the average customer attrition rate was about 7,000 accounts per month (KCB, 2015). The study focused on a target population of existing bank customers.

1.7 Definition of Terms

1.7.1 Customer Attrition

The number of customers who discontinue a service or employees who leave a company during a specified time period divided by the average total number of customers or employees over that same time period. Attrition is defined as a ratio, the numerator of which is the gross number of lost customer accounts for a given tenure, net of the adjustments described below, and the denominator of which is the average number of accounts for a given period (Lowenstein, 1995).

1.7.2 Customer Retention

Buttle (2009) defines customer retention as the establishment and retention or maintenance of profitable long term relationship between a firm and its customers.

1.7.3 Customer Defection

Defection means different things to different industries. It may mean that someone has stopped doing business with you, is doing less business with you, or is becoming dissatisfied enough to place his or her order elsewhere (Cannie, 1994)

1.8 Chapter summary

This chapter presents the background of the study and articulates the problem under investigation. In addition, the chapter presents the statement of the problem, purpose of study and research question. The scope of study, the limitations and definition of terms is also provided in this chapter. Chapter two reviews the existing literature on the research questions of the study. It presents the available literature on customer retention and customer service quality, product distribution channels and customer retention and cost of

services and customer retention. The chapter also provides a summary of the literature. Chapter three presents research methodology of the study. This includes research design, research methodology, population and sampling techniques, data collection and analysis and research procedures. Chapter four presents findings and results of the study based on data collected and analysed. It presents the findings in light of the research questions, and attempts to provide answers to the research questions. A summary of the findings which answers the research questions is provided in Chapter five. In addition, Chapter five includes discussion of findings, conclusions of the study and recommendations of the study

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The literature reviewed in this chapter explores quality customer service, customers view on availability of multiple distribution channels, cost of services and customer retention. The literature examination is with an intention to present a foundation, for developing a framework from which questions raised can be answered.

2.2 Customer Service Quality and Customer Retention

2.2.1 Customer Retention

Customer retention is a cost-effective and profitable business strategy that is imperative in today's competitive economic environment. By definition customer retention is the activity a company undertakes to prevent customers from defecting to alternative companies. Successful customer retention starts with the first contact and continues throughout the entire lifetime of the relationship. Some of the benefits of customer retention are: to increase revenue to lower customer acquisition costs, and to increased referrals. As the cost of acquiring new customers and accounts increases in the banking sector, and as competition for deposits and their associated fee income increases, banks are paying more attention to the number of customers and accounts they are losing (Mbithi, 2013).

Aspinall *et al.* (2001) in a study titled 'The Meaning and measurement of customer retention', displayed that despite the enormous attention been paid to customer retention in the academic press and elsewhere, much of it was lacking in practice. Their study established that many companies that claim to consider customer retention as an important business objective do not define it well or measure it. Their study concluded that companies serious about needing to improve customer retention should first define it clearly and put in place operational measures that tell them clearly whether they are achieving improvements in it.

2.2.2 Customer Service Quality

Onditi, Oginda, Ochieng, and Oso (2012) discussed the factors that contributed to customer loyalty and retention. The researchers used data from four banks in Homabay County, namely, Cooperative Bank, Barclays, KCB and Equity. 400 clients from these institutions were examined during a three month period in 2012. The study found that it was possible to enhance customer loyalty by increasing service quality. Kheng, Mahamad, Ramayah, and Mosahab (2010) investigated the impact of service quality on customer retention in Malaysian banks. The study was conducted due to the emergence of phone banking, ATMs, and Internet banking. Hence, it was important to consider how bankers could respond to stiff competition by retaining clients. The study found that customer loyalty increased due to improvements in service quality. Some of the service quality dimensions include assurance, empathy, and reliability.

Nyangosi and Arora (2011) examined how financial institutions in Kenya were using electronic distribution channels to fulfill the demands of clients. The researchers focused on how information technology was used to attract and retain clients. In this regard, they found that customers usually used internet banking to purchase products and check account balances. Short Message Service (SMS) banking and ATM technology were also identified as additional ways to retain clients. Banks and other commercial institutions were obligated to adopt internet banking for the sake of ensuring customer loyalty. Caruana (2002) conducted a study designed to investigate the impact of service quality on customer satisfaction. The author was concerned that service loyalty had been given little focus during services marketing. Caruana (2002) distinguished between the concepts of customer satisfaction and service quality. The research was conducted through a postal survey of 1,000 retail banking clients in Malta. The findings showed that customer satisfaction played a considerable role in the effects of service quality on retention.

Athanassopoulos, Gounaris, and Stathakopoulos (2001) conducted an empirical study designed to investigate the effects of customer satisfaction. The relative satisfaction of different clients impacted their behavioral responses. In this regard, the study found that customer satisfaction influenced the decision whether to retain the bank as the primary service provider. Therefore, banks that satisfied their clients had higher rates of customer retention.

Bell, Auh, and Smalley (2005) investigated customer relationship dynamics with regards to loyalty and service quality. Consumers typically increase their expertise in the bank's products after sustained excellence. The researchers examined the effects of switching costs and customer investment expertise on client retention. The study found a direct relationship between customer loyalty and technical service quality. Clients with higher investment expertise caused three-way moderating effects on switching costs.

Al-Hawari (2006) investigated the effects of service quality on customer retention. Automated services had a direct impact on bank financial performance. The study manifested the impact of automated technology on bank operations. The researchers found that customer retention played a mediating role on customer loyalty. Al-Hawari (2006) proposed a mediating model that connects financial performance to service quality.

According to a study by Hinson, Mohammed, and Mensah (2007) on Ghanaian Banks, quality service is an important factor for the retention of customers. Their research objectives were achieved by identifying the determinants of service quality as reliability, accessibility, responsiveness, tangibles and empathy. By analyzing the impact of service quality on Customer retention in the banking industry in Ghana, they observed that out of five service quality dimensions, tangibles had the highest Mean score and that the bank should concentrate on empathy as it has the least mean score. Their study also established that the combination of tangibility, reliability, responsiveness, assurance and empathy together have significant effect on customer retention. The study concluded that service quality has positive effect on customer retention. These variables should work hand in hand to ensure success and survival of the bank. The study also observed that, in the world of global economy, banking sector needs have become more diverse and exotic than ever before. So, banks should focus in service quality to retain their customers in every dimension of service quality.

In a study conducted in in Bahrain, Almosawi (2001) examining bank selection criteria employed by college students, it was established that key determinants affecting students' bank selection were: bank's reputation, availability of parking space near the bank, friendliness of bank personnel, availability, and location of automated teller machines (ATMs). The study demonstrates that service quality was key in determining the choice of bank. The students preferred to use commercial banks that were close to their homes. It was concluded that customer service quality perception is a key determinant of customer

retention rates. According to Dhandabani (2010), service quality is perceived by customers as the result of expected service levels and received service levels. Service quality is regarded as one of the key means of service differentiation and competitive advantage, which attracts new customers and contributes to market share. In addition, service quality is viewed as an important means for customer retention (Venetis & Ghauri 2004).

An evaluation in this field by Venetis *et al.*, (2004) focuses on the contribution of service quality to customer retention, using behavioural intentions, as a measure for customer retention to imply that a transaction perspective has an influence on customer retention. Service has many dimensions, definitions, and techniques which may affect its way of production, consumption, and delivery. In order to facilitate service quality evaluation, Van Riel *et al.*, (2001) divided service into five components: the core services, facilitating services, supporting services, complementary services, and the user interface, through which the customer accesses the services. Also, there is no unified definition of quality and researchers are continuing to study a variety of quality dimensions in the service context. Gronroos (1994) defines service quality as “a perceived judgment, resulting from an evaluation process where customers compare their expectation with the service they have received” (p.10).

Venetis and Ghauri (2004) studied the link between relationship marketing and service quality and the effect of this link on customer retention. The authors developed a model to capture the relationship between the two concepts and found that service quality indeed contributes to the extension of long-term relationships. Exceptional customer service, through retention, leads to profitability. The contribution of service quality to profitability is generally explained by two underlying processes. To begin with, service quality is regarded as one of the few platforms for service differentiation and competitive advantage which attracts new customers and contributes to the market share. Second, service quality is viewed as an important means for customer retention (Karin & Pervez, 2004). Profitability and by extension, loyal customers, is mainly achieved through repeat purchases. It has been argued that service excellence enhances customers’ inclination to buy again, to buy more, to buy other services, to become less price sensitive, and to tell others about their positive experiences (Anderson & Fornell, 1994). The most comprehensive study in this field, by Zeithaml *et al.*, (1992), determines that service quality

influences different intentions, such as giving recommendations, doing more business, and willingness to pay more (Karin & Pervez, 2004).

How Customer complaints are handled is most important in studying customer attrition. Complaints handled correctly can improve levels of customer satisfaction and also provide an opportunity to improve products and the standards of service. KCB views complaints as “opportunities for improvement” service gaps noted through a customer complaint are passed on to the Product Development team to enable them improve an existing product, or create a new product/service if need be. Complaints have enormously helped the bank understand why customers leave but there are still exist opportunities to improve (KCB, 2015).

2.2.3 Customer Service Quality and Customer Retention

Allred and Addams (2000), in their study on Banks and Credit Unions, state that service quality is a significant matter in the service industry, more so for financial service providers, who have difficulty demonstrating to their customers the differentiation by products alone. If a customer values low prices, and you focus on quick delivery instead, your customer may soon be looking elsewhere. Marketing research firms can tell you what consumers generally value: a reasonable price, product or service quality, and good customer service. Effective mechanisms aim to establish what your most valued customers really want by seeking feedback. This substantially depicts you care about them and their business. The dialogue you start can strengthen the customer relationship and lead to long-term loyalty (Pegler, 2004).

Han and Hon (2005) in a study on Korean retail market concluded that service quality does influence the level of customer retention and word-of-mouth behavior. The study found that one of the significant issues for service providers as a result of the increased competition is "customer churn", or customer defection to a competing company. How to increase the level of customer retention has been one of the key questions to most marketing managers in the retail industry. Their study provided marketing managers, especially in the retail environment, with insights to understand how to increase customer retention level, by first seeking to identify customer perceptions of service quality for a particular retail store. This allows retail managers to better tailor their marketing efforts

and customer management to increase the retention rate, by improving their relationship with customers.

In the banking sector, service quality is very critical in enhancing customer retention. Dema and Koksai (2014) noted that service quality in the banking sector influences, customer satisfaction, customer loyalty and customer retention. Customers especially in the banking sector consider their level of satisfaction critical in informing their decision to establish long term relationships with the bank. Furthermore, the critical success for competitiveness and sustainability in the banking sector is the provision of quality service. According to Siddiqi *et al.*, (2011), the level of customer service quality is a major denominator in creating a competitive edge for a bank as well as survival in a highly competitive business environment. Further, Siddiqi *et al.*, (2011) noted that to remain competitive, banks must develop structures, capabilities and strategies to increase the levels of customer satisfaction through service quality. This is supported by the findings of Mishra *et al.*, (2010) in the study “Service Quality Assessment in Banking Industry of India: A Comparative Study between Public and Private Sectors.” Some of the key attributes of service quality that are relevant in the banking sector include:

2.2.3.1 Security

Security is essential to every trade and especially in banking sector where clients leave their money based on promises done (Knell & Stix, 2009). Gaining customers trust and making them feel secure has significant influence on the bank’s performance. It is essential not only to be reliable and trustworthy, but also trustful to customers to develop a win- win relationship with them. What customer expects from their bank is to listen, care and resolve their problems (Bell, 2000). Customers who witness bank weaknesses spread this information very quickly with other customers. In order to save and increase market share, banks should pay attention their reputation and image (Hassan et al., 2012), noting not to weaken intangible possessions such as trustworthiness.

In a study conducted on customer retention focusing on professional service firms Mascareigne (2009) noted that trust and confidence are perceived as vital elements by professional service providers. Several of the customers argued that without trust, no business can be done, mostly due to the fact that client cannot evaluate performances beforehand. As client cannot trust an agency which they have not worked with earlier, they

demand to see references from previously carried out projects. Some clients chose an agency based on recommendations made by other clients. The study among other variables concluded that creating close deep trustworthy and long term relationships, are key factors in retaining customers.

2.2.3.2 Relationships

Customer relationship has been analyzed for decades. Nevertheless, there has been little consensus on the most important business approach to customer relationship. Nonetheless, customer relationship management and creation remain a key strategy for the organizations (Roig *et al.*, 2006). To emphasize importance of relationship, a new marketing approach has been created and named as 'relationship marketing'. Relationship marketing has been termed for banking industry as 'relationship banking', and seeks to establish long-term bonds with customers (Mukherjee & Nath, 2003). With the increasing number of internet users, customers now have great opportunities to be more powerful and effective against the banks. Starting early 2000, banks understand that they can only be successful if they focus on customer long lasting relationships (Koçoğlu & Kirmaci, 2012). This is because developed positive relationships with the customer links their loyalty, and loyal customer has potential to provide various advantages and benefits (Roig *et al.*, 2006).

2.2.3.3 Reliability

Reliability is considered to be an important indicator of service quality (Kheng *et al.*, 2010). It is one dimension of Service Quality Assessments (SERVQUAL) researches and its efficiency has been measured in several studies in banking sector (Baumann *et al.*, 2007; Bahia & Nantel, 2000). Berry *et al.*, (1988) measured and remarked reliability as the most influential factor on service quality and customer satisfaction (Kim *et al.*, 2006). Also Bloemer *et al.*, (1998) determined reliability one of the important components of customer loyalty as an intangible asset in banking sector. Furthermore, reliability is seen among vital traits of banking service. When a bank, fails in reliability, it tends to results in significant degree of dissatisfaction with customers (Johnston, 1997).

2.2.3.4 Staff

The willingness of staff to facilitate service to clients and to provide prompt service brings about customer satisfaction. Likewise, demoralized staff negatively impact customer

satisfaction (Joseph *et al.*, 1999). This pleasure is particularly important when clients have requests, questions, complaints and problems surrounding the service. Staff play an important role on bank's performance. The professional staff translated to customer courtesy and inspires confidence, trust and loyalty (Iymperopoulou *et al.*, 2006). The manner in which staff obtains, shares and interprets knowledge in an enterprise is very important in aiming to retain competitive advantage (Moreno & Melendez, 2011). Staff is a frontier between customers and organization and their approach is essential on customer loyalty. To gain customer satisfaction and loyalty by staff approach, there are three stages that staff should consider; the first stage consists of being aware of bank prestige "Hearing it", then, understanding importance of themselves in meeting banking promises "Believing it", finally becoming impassioned promoter of the bank "Living it" (Yazdanifard *et al.*, 2011).

According to a study on Tanzanian banks on customer retention, Msoka and Msoka (2014) concluded that key in customer satisfaction, which leads to retention, is customers becoming satisfied when they encounter staff kindness, satisfactory information on banking information, timely information, competitive prices and appropriately handled customer complaints.

2.3 Distribution Channels and Customer Retention

2.3.1 Distribution Channels

Distribution channels refer to the methods used by banks to serve customers. In this regard, the organization decides whether to use traditional or modern methods. Clients are invariably influenced by the mode of service deployed by the firm. Distribution channels enable organizations to satisfy the tastes and preferences of clients. It is important to manage customers according to their channel preference, that is, whether they purchase from a traditional channel (e.g., catalog, store), an electronic or digital channel, or multiple channels. Distribution channels have become a cornerstone of marketing strategy (Neslin *et al.*, 2006). Previous research has suggested that customers who use multi-channels for their shopping are more likely to spend money, revisit store, and repeat product purchases when compared with single-channel shoppers; they also tend to exhibit greater retailer loyalty than single-channel shoppers (Dholakia, Zhao, & Dholakia, 2005; Kumar & Venkatesan, 2005 and Lee & Kim, 2008). For example, the U.S based multichannel retailer Nordstrom finds that across categories, customers who use more than one channel spend

four times as much as those who shop only through one channel. The limited relevant scholarly articles that typically analyze a single category demonstrate that multichannel customers purchase more often and spend a larger share of wallet than single-channel customers (Kushwaha & Shankar, 2013).

Within the banking industry, there are various modes of customer interaction other than the Employee interaction; and their meeting the positive customer experience is really an avid area of assessment in today's business environment (Mburu, Van Zyl, & Cullen, 2013). The various channels stream from the traditional branch network to Automated Teller Machines, online banking channels, social media. Therefore, banks must offer pervasive integration of their channels and services to ensure customer satisfaction.

Organizational outcomes such as service delivery, efficiency and customer satisfaction and experience have been underpinned by technological advancement (Blount, 2011). Service delivery has been a key area of innovation and businesses focus varied resources, including investing in technologies, in an attempt to meet higher levels of customer satisfaction (Plakoyiannaki *et al.*, 2008 and Bettencourt & Ulwick, 2008). Satisfied customers become loyal customers, which is vital lifeline for a business because the loyal customers give repeat business and leads to long term profitability (Axelsson, 2008).

Liao and Cheung (2010) examined how consumer attitudes were influenced by internet-based e-banking. The empirical study identified and measured various parameters that contributed towards consumer behavior. The researchers conducted a survey in Singapore due to its well-developed infrastructure and geography. Hence, the costs associated with telecommunication and physical communication were quite low. The study conducted by the researchers highlighted the clear differences between internet-based and traditional banking systems. The findings revealed the relevance of qualities such as convenience, accuracy, user involvement, user-friendliness, network speed, and security. The recent decline in internet-based banking systems reveals consumers' aversion towards the channel.

Hitt and Frei (2002) analyzed whether consumers preferred to use electronic distribution channels in comparison to traditional methods. In many instances, service firms were motivated to use electronic distribution channels to support existing methods. Different forms of physical infrastructure were used to help clients and improve service delivery.

The researcher examined the differences between consumer reactions to both traditional and modern methods. These differences were examined using personal-computer-based home banking systems. The author discovered that PC banking clients were more profitable than other banking customers. Minor differences can be attributed to the changes in consumer behavior and demographic characteristics. Consequently, retention is greater for the case of online distribution channels.

Gustaffsson, Johnson, and Roos (2005) examined the relationship between customer satisfaction and relationship commitment dimensions. Customers who experience satisfaction are more likely to retain the bank as their preferred provider. The researchers examined the potential for developing reaction and situational trigger conditions. It was crucial for institutions to manage the satisfaction-retention relationship by using appropriate distribution channels. Furthermore, the researchers found consistent results to highlight the impact of distribution channels on consumer retention. Hence, customer relationship managers should adopt their methods accordingly.

Campbell and Frei (2010) utilized the context of online banking systems to examine the consequences of using modern channels. Self-service distribution channels could be used to change the interactions between consumers and the firm. The researchers used a sample of retail banking clients during a 30-month period. The study aimed to investigate whether changes in service consumption were associated with customer profitability and cost of services. The findings revealed that online banking was directly associated with augmentation and substitution of banking services. Banks could experience a tremendous increase in transaction volume if they focused their efforts on online banking. Modern distribution channels were associated with greater retention of customers.

Akinci, Aksoy, and Atilgan (2004) examined the impact of internet banking in relation with consumer segments in developing countries. The authors conducted an authoritative study designed to understand the attitudes of consumers towards internet banking. In this regard, they used a random sample of professionals and academicians. The behavioral, demographic, and attitudinal behaviors of various banking users were analyzed. The findings revealed significant differences between non-users and users. Consequently, it was revealed that distribution channels had a considerable bearing on the level of customer retention.

Verhoef (2003) analyzed the effects of consumer relationship management to customer retention and share development. The author examined the effectiveness of certain customer relationship management strategies. In this regard, it was quite clear the differential effects of relationship marketing and customer perceptions. The findings revealed the significance of loyalty programs and effective communication. The distribution channel used by an organization would motivate clients to show their commitment. Consequently, banking institutions can use similar strategies to influence both customer share development and customer retention.

The interaction between employee and customer experience with technology must be managed effectively to drive the effective performance of the organization (Fleming Fleming *et al.*, 2010), the interactions between customers and employees in service oriented industries are being mediated upon by more sophisticated technologies. Customers use a variety of service delivery channels, many of which are through self-service delivery channels (Xue *et al.*, 2007). A larger proportion of transactions in large banks are conducted through electronic commerce interactions that are heavily reliant on the customers' uptake on the usage (Roberts & Toleman, 2007) and their ability to utilize the technology.

Customers who shop online experience more customer satisfaction than customers in other distribution modes including web-based investing activities as argued by Hines (2004). However, Hoeg (2005) argues that customer segments should be defined based on two criteria; customer orientation to technology, and complexity of customer needs. It was found younger customers are more likely to be technologically sophisticated than the older customers, while older customers are more likely to have significant wealth than younger customers, though there are exceptions to the rules that make it necessary to identify the combinations of technology orientation and complexity of financial-product need. However, transactions that require significant financial expertise – based on the product complexity or the customer's needs – will usually require a high level of service experience and customization, which go beyond the automated system. To some degree, customer service is becoming automated to be more cost effective as assessed by Bulik (2004) when conducting a study on Customer Experience at Sprint. The study showed that businesses are trying to balance a certain level of customer service and a self-support system.

2.3.2 Technology as a Distribution Channel

Introduction of Automated Teller Machines (ATMs) in the banking industry revolutionized banking. ATMs have played a significant role in customer retention, as they facilitate dispensing of service 24-7-365, that is, throughout the year, day and night. In-house surveys have consistently shown that when ATMs break down, customer confidence in bank services dip. ATMs are a significant channel for offering bank services therefore it is crucial for banks to make sure they are functional at all times in order to increase the rate of customer retention (Berry 1996).

A wider branch network increases level of availability of services to customers. A bank which is not well branched out may inconvenience customers to travel long distances seeking services. This inconvenience makes customers unhappy and may result in bank account closure or defection to other available banks. According to "Effects of technology in retail banking by Berry (1996)", bank branches are one of the key banking channels. To retain customers, banks have ensure their branches are strategically located to retain and attract current customers and potential customers respectively.

The rise of mobile and digital banking is another opportunity that enables bank provide clients with increased service channels. Research by Berry (1996), states that many customers opt for mobile banking owing to the convenience. In recent times, telecommunication firms offer banking services. Putting into account how mobile banking is more convenient, this has dealt a major blow to many banks across the globe. This has led to the relative decrease in customers in banks. Though mobile banking may be a better option for many clients, charges apply which discourage some customers from using the service.

Internet banking is now basic service channel for banking clients. Use of E-currency in many transactions has drawn customers from the conventional banking. PayPal, MoneyBookers and other e-currencies now available to facilitate online shopping and other forms of payments, are now standard forms of payments as they offer flexibility and convenience. Despite closure of some of the internet banks by Federal Authorities, lack of tight regulation has seen emergence of many more. These kinds of banks are highly convenient and preferable which in turn leads to customers defecting (Berry, 1996).

Most banks in Kenya have provided internet banking in their service channels to retain their valued customers. To remain competitive, it is key for internet banking services to be operational round the clock (Mburu, 2013). The right use of technology as assessed by a company study of Overstock.com (2008) can make a big difference in the customers experience and will increase satisfaction levels by reducing customer waiting times. The company notably had increased sales with fewer staff to handle the increased growth. Their focus on Customer Experience and technology management resulted in making their customers happier. Service strategies that involve the internet therefore have produced various ways to deliver services and communication and changing the way business is being done (Varlander & Julien, 2010). Therefore, businesses should take advantage of the effectiveness of the technologies to achieve sustained competitive advantage.

Other service delivery channels that support the employee – customer interactions are termed as E-commerce that describes “the use of ubiquitous networks to support personalized and uninterrupted communications and transactions between a firm and its various stakeholders to provide a level of value over, above and beyond traditional commerce” (Watson *et al.*, 2002). These include mobile banking technologies. Service based industries utilize a number of service delivery channels to proactively interact with their customers, what is termed as a Multi-Channel service delivery approach (Blount, 2011). The banking sector specifically, utilizes a Multichannel approach where it uses a combination of self service and face to face service delivery (branch network) channels that use technology and physical channels (Xue *et al.*, 2007).

This has created a challenge for managing and measuring how effective the various distribution channels across all access points are in ensuring the customer receives a consistent customer experience across all delivery channels utilized (Massey *et al.*, 2007). For the banking sector on the international scope, this has led to an ongoing challenge in terms of the bank’s ability to provide consistent level of customer experience (Khoury, 2008). Blount’s (2011) study deciphered that the challenge was complicated by the fact that the way in which the services are delivered also relies on the active participation by customers in both self-service and other service delivery channels as applicable. Essentially, this can result in Automation reducing or removing the employee -customer interaction.

2.4 Cost of Services and Customer Retention

In a study conducted on Foreign owned banks in New Zealand, Hull (2002) noted that competition in the banking industry has increased significantly in recent years due to deregulation and globalization. Given that products and services offered by banks can often be easily duplicated, banks are not only competing with each other but also with other non-banking financial institutions. When financial institutions provide almost identical product and services, they can only distinguish themselves on the basis of price and quality (Hull, 2002). According to a study by Siele and Muturi (2016) on 22 commercial banks in Thika town on customer retention, they established that interest rates and bank charges have an effect on customer retentions. Conclusions of their study being that interest rates were found to have negative effect on the customer retention, they also concluded that bank charges were found to have occasioned an increase in the tendency of the customers to leave the bank.

Essential elements influencing customers' selection of a bank include the range of services, rates, fees and prices charged (Abratt & Russell, 1999). The recent experience of some banks suggests that some customers might consider switching banks if fees on checking accounts are raised (Deloitte, 2013) Thus banking services have over the years turned cheaper as banks try to retain their customers. But this has not been prevented loss of customers to cheaper and more financial convenient banking competition. Banking fees is also a significant determinant when a customer is choosing a banking institution. The rise of mid-size banks over the past few years has increased the defection rate from large banks to mid-size banks up to 11.3 percent (Power & Associates, 2012).

2.4.1 Cost of Services and Customer Attrition

Increase of defection has also been influenced by the fact that closing an account in most large banking institutes in Kenya is free. Movement of affected banks "from free to fee" is pivotal in the process of customer retention. In mid-size and upcoming banks, registration of a new account is mostly free and since most large banks find the movement "from fee to free" rather challenging, customers may find it easy to defect if they are uncomfortable about the charges in the large bank institutes (Mbithi, 2013).

According to Ghosh (2014), charges imposed by large banks against their own customers for any banking services, including withdrawing money, are enraging their customers. This leads to customer frustration, resulting in them opening accounts with smaller and more affordable banking firms, for example SACCOs. According to a research by Deloitte Study (2013), many customers in large and midsize banks, have little or no clue of how much cost a bank incurs during the process of offering services customers expect from a bank. The lack of knowledge discourages customers, subsequently translating to account closure.

A rise in frugality and the decrease of loyalists leads to customer attrition within any institution. Frugalists are a sensitive type of banking customers as they respond almost immediately to any charging fee change of any kind. Loyalists on the other hand tend to stick to the same bank even with fee increments of any kind. However, recent studies show that the high fee charges in large banks has led to the increase of frugalists and decrease of loyalists making the rate of customer defection to mid-size banks higher than ever (Deloitte study, 2013). According to MoneyRates.Com Semi-Annual Survey of Bank rates (2013), it is more expensive now more than ever to be a customer in a large bank. This factor which has been brought about by high fee charges as explained earlier has led to loss of customers by large banks to smaller and cheaper banks.

In a study on Tanzanian banks (Msoka & Msoka, 2014), the following conclusions were deduced, findings of this which agree with Kaura (2012) which revealed that satisfaction in banking environment is influenced by price equality and service charges. Furthermore, Rootman *et al.*, (2011) found that customers were more concerned with bank charges than other factors. In this research, both indicators of interest rates and bank charges were found to have a strong influence on customer satisfaction because the banks under study have low charges to its customers. Also they offer loans at low interest rates and this is because they have local advantage and low operational cost as they get assistance from the Government. For example, NMB Bank in Tanzania, has most of its customers who are Government employees and their salaries are deposited in NMB. Furthermore, NMB has branches almost in all regions in Tanzania. Pricing is important in satisfaction because most of the customers are retail customers with low level of income, so they need bank services at low costs (Msoka & Msoka, 2014).

2.4.2 Cost of Services and Customer Profitability

Due to the analysis of cost of services statistics, companies and businesses are able to analyze and understand the profitability of customers and various customer segments (Raaij, 2005). Further, companies are able to understand the most profitable customer segments. Raaj (2005) further notes that the cost of services analysis helps companies to enhance or develop appropriate strategies to improve performance and profitability in various customer segments. This also helps in the shaping of company focus to various markets. A loyal customer is one who continuously purchases a product, recommends the product to his colleagues and acts as a brand ambassador (Chris & Graham, 2007). How does analyzing and reducing costs to serve influence or enhance customer loyalty?

Zeithmal *et al.* (2001) showed that the basic essence of cost of services analysis is to identify and measure the profitability of customers segments i.e. the company identifies its most important and lucrative market segments and enhances service delivery and resource allocation to this market segment (Reinaldo *et al.*, 2008). Using the customer profitability model in figure 2.3 above, companies are able to identify its most important customers based on the 80/20 rule. The 80/20 rule argues that 80% percent of a company's profits are generated by 20% of its customers while 20% of the company's profits are generated by 20% of the customers of the company (Horngren *et al.*, 2003).

It is from the identification of the most important and lucrative market segment that companies are able to develop better products, deliver better service and provide add on services aimed at enhancing customer loyalty. According to Horngren *et al.*, (2003), companies that have identified the 20% most important customers, make strategies and plans to ensure that this market is retained at all costs. The customers in this segment are pampered with added benefits, better convenience, faster services, dedicated service channels and other benefits which make their life more comfortable resulting into customer loyalty. This was supported by the findings of Chang (2004 &2006) in his studies on how companies can improve customer loyalty, Chen and Popovich (2003), Coltman (2007) and Winer (2001). With these findings companies can enhance customer loyalty amongst this platinum group of customers.

2.5 Chapter Summary

The literature reviewed portrays relationship between service, charges, profitability convenience and customer retention. In doing so, the literature touched on why customers defect to the competition or why they choose to stay on. The review also touched on customer retention and its various dimensions. It further observed the significance of customer loyalty to the service industry and benefits that are reaped when customers are loyal to a business. The material exhibits essence of customer service, relevance of service channels in retaining clients. Different service platforms and related convenience determines rates of attrition. It also highlights how bank charges determine customer choices in retaining their bank accounts. It also offers insight on the bottom-line impact arising from loyal customers.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter details the research methodology used for the study. The methodology included the research design, population and sample, data collection methods, research procedures, data analysis methods, and recaps the chapter with the chapter summary.

3.2 Research Design

This study utilized a descriptive research design. A descriptive research design focuses on the collection of data with the aim of describing problems, solutions or patterns to an issue (Blumberg *et al.*, 2011). Since the primary aim of this study was to describe the factors leading to customer retention at KCB. The purpose of this study was to investigate the relationship between the independent and dependent variables. The independent variables included: customer quality of service, cost of service and distribution channels. The dependent variable was customer retention in the bank. To establish this relationship quantitative approaches were used. Quantitative approaches included the use of numerical data or data with quantifiable measures to establish relationships and patterns (Blumberg *et al.*, 2011).

3.3 Population and Sampling Design

3.3.1 Population

A population is the total collection of elements about which inferences are made (Cooper & Schindler, 2001). The main participants of this study were existing KCB customers. In KCB Kenya, 6,000 to 7,000 accounts are closed per month (KCB, 2015). The period under consideration in the study was end of year 2015, when accounts closed are tallied. Accounts under year 2017 formed the population of the study.

3.3.2 Sampling Design

This refers to the procedures used while selecting a sample population and collecting relevant data.

3.3.2.1 Sampling Frame

Sampling frame refers to the total number of individual elements within a case. In this study the sampling frame included the total number of accounts closed in branches under KCB Kenya. According to internal statistics at KCB, the monthly attrition rate of accounts is 6,000 to 7,000 per month. KCB Contact Centre receives monthly reports from Information Technology Division, on account attrition (the number of accounts closed each month). The data is usually broken down and classified based on the branch and profile, that is, detailing in each product range, the number of accounts closed. The account data is further subdivided into those closed with credit balances, and those that were dropped from the system due to nil account balances. (KCB, 2015)

3.3.2.2 Sampling Technique

A sample can be defined as a group of relatively smaller number of people selected from a population for investigation purpose. Sampling techniques are broadly categorized into two major types Probability sampling methods and Non-probability sampling methods. Probability sampling is also called as random sampling or representative sampling. Stratified Random Sampling, which is a type of probability sampling, is a type of sampling method is used when population is heterogeneous. i.e., every element of population does not matches all the characteristics of the predefined criteria. The sample is selected from each stratum randomly (Alvi, 2016). The stratified random sampling technique was used in this study. Individual elements within each strata are given an equal chance for inclusion in the study. The main strata's for this study were existing bank customers enjoying various banking products and services.

3.3.2.3 Sample Size

A sample of 138 respondents was chosen. This sample size has been calculated at 95% confidence interval. Gay (1987) recommends for descriptive studies a sample of 10% of the population is adequate and thus this study used a proportion of 10% of the population.

The sample size formula used to calculate sample size:

$$n = (pqz^2) / (e^2)$$

where, Z = Z value (1.96 for 95% confidence interval)

p = percentage picking a choice, expressed as decimal; (0.10 used for sample size needed)

e = confidence interval, expressed as decimal (0.05)

The sample size was calculated as outlined below:

$$\text{Sample size (ss)} = (1.96^2 * 0.10 * 0.9) / (0.05)^2$$

$$= (0.345744) / (0.0025)$$

Therefore, ss = 138.

3.4 Data Collection Methods

The study used primary data collected using a questionnaire. A questionnaire was justified for use in this study due to the convenience in data collection, efficiency in costs during data collection and ease of administration, collection and coding. The questionnaire for this study used closed questions and Likert scale questions. This was aimed at gauging the respondent's views on the products and services as well as eliciting specific questions.

The questionnaire had five sections each representing a research question, and a general section collecting demographic information about the respondent. Section One collected data on the background information of customers. Section Two collected data on the relationship between service quality and customer retention. Section Three collected data on the relationship between distribution channels, and customer retention. Section Four collected data on costs of banking services and customer retention rates. Finally Section Five collected data on Retention.

3.5 Research Procedures

The questionnaire was formulated and the researcher evaluated the questionnaire on 10 ten existing customers from KCB's Moi Avenue branch to identify errors and assess the internal consistency of the questionnaire. Once evaluation was completed and changes incorporated, questionnaires were prepared accompanied with cover letter stating who the researcher was, the purpose of the questionnaire and requested for customer's feedback. The cover letter further assured the customer by stipulating that the information collected would be treated in confidence and ended the letter with an expression of thanks. This was in compliance to the guidelines provided by Jankowicz (2005). The written questionnaires were issued individually to existing bank customers by the researcher, assisted by branch staff for distant branches. The research concerning the entire exercise took about a month.

3.6 Data Analysis

Data collected using the questionnaires was inspected, edited and cleaned for coding. Coding was undertaken and coded data keyed into both SmartPLS 2.0 and SPSS vs. 23 for data analysis. Analysis of the data was done to get meaningful statistics for interpretation as findings of this study. Analysis of data was done quantitatively using descriptive statistics such as frequency distribution tables, graphs, means, deviations and medians. This aided in the description of trends and patterns in the data. Descriptive statistics analyzed were presented using tables and figures.

To infer relationships on the dependent and independent relations, correlations analysis was done. Pearson's momentum correlation coefficient was analyzed using SPSS. Correlation coefficient statistics analyzed were presented using tables.

3.7 Chapter Summary

This chapter has presented the research methodology and design of the study. A quantitative approach was utilized using a descriptive research design. The population and sampling techniques was also highlighted as well as the data collection procedures, data analysis and research procedures. Chapter four below presents the findings and results of the study. The findings and results are based on data collected and analysed using methodologies detailed in this chapter.

CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

The purpose of this study was to investigate the determinants of customer retention in KCB bank. This chapter presents the data analysis results, interpretation and presentation.

4.2 Response rate

Table 4.1 indicates out of 138 questionnaires administered only 70 were returned. The overall response rate was thus found to be 50.7%, which is usually expected response rate of 50-75% for hand delivered questionnaires and was sufficient to proceed with the data analysis.

Table 4.1 Response rate

Category	Frequency	Percentage
Responded	70	50.7%
Did not Respond	38	49.3%
Total	138	100

4.3 Demographic Characteristics

The background information and characteristics of the respondents to this study are presented in this section.

4.3.1 Period of Banking with KCB Bank

The respondents were asked to indicate the number of years they have banking with KCB bank and the findings presented in table 4.2. The mean value of the length of customer Bank relationship was 6 years.

The low standard deviations demonstrate a slight dispersion around the mean of the distribution, implying that actual length of customer bank relationship differ slightly.

Table 4.2 Period of banking with KCB bank

	N	Minimum	Maximum	Mean	Std. Deviation
Length Customer Bank Relationship	68	1	45	6.16	7.217

4.3.2 Products or Services.

The respondents were asked to indicate banking products or services they enjoy; the findings presented in table 4.3. The results indicated that majority of the respondents 34.8% are users of current accounts, 10.1% are users of savings and current accounts, and 21.7% indicated that they are users of all products and services offered by the bank.

Table 4.3: Products and Services

Products	Frequency	Valid Percent
Savings accounts	6	8.7
Current accounts	24	34.8
Loans and overdrafts	1	1.4
ATM	2	2.9
Internet banking	2	2.9
Agency banking	2	2.9
Savings and current accounts	7	10.1
savings, current and loan overdrafts	2	2.9
internet banking and current accounts	2	2.9
current accounts and loans overdrafts	4	5.8
Mobile banking	2	2.9
All	15	21.7
Total	69	100.0

4.3.3 Age of the Respondents

The respondents were asked to indicate their age and the results presented in figure 4.1. From the findings it is clear that the customers of KCB were spread out to various age brackets, majority of the respondents 64% were between the age brackets of 19 – 35 years, 22% were between the age bracket of 36 – 50 years and 9% were between 51-65 years, 4% below 18 years and 1% of the respondents were above 55years.

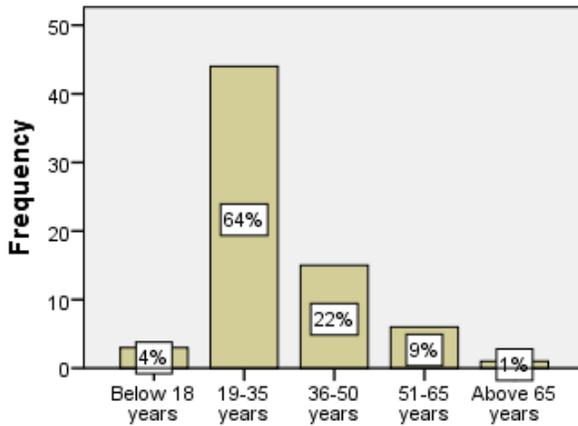


Figure 4.1: Age of respondents

4.3.4 Level of Education

The study sought to find out the level of education of the respondents and the results presented in figure 4.2. The findings indicated that 6% of the respondents were class 8 leavers, 16% were form four leavers, 22% had college qualifications, 41% who constituted the majority were undergraduate's holders and 16% were post graduate holders.

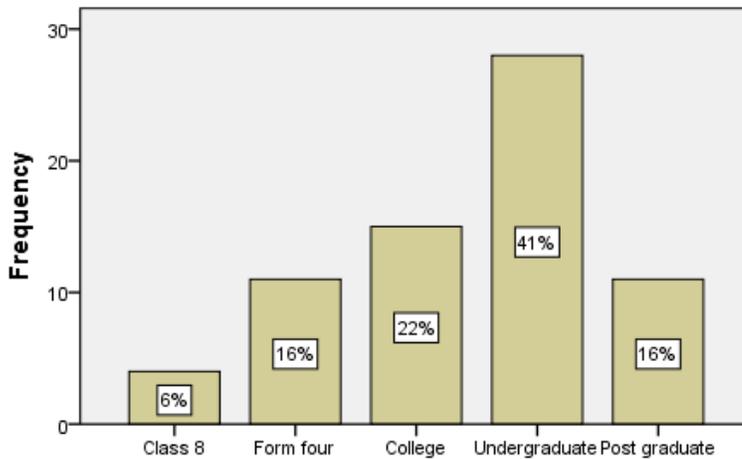


Figure 4.2: Level of Education

4.3.5 Gender of the respondent

The respondents were asked to indicate their gender. The findings were as indicated in Figure 4.3. 62% of the respondents were male and 38% were female.

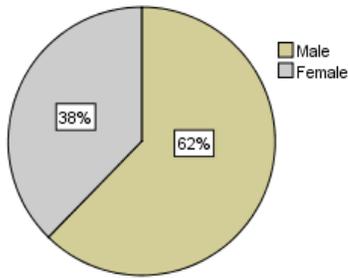


Figure 4.3: Gender of the respondents

4.3.6 Employment status of the respondents

The respondents were asked to indicate their employment status. The findings were as indicated in figure 4.4. The results indicated that 46% of the respondents who were the majority were employed, 15% unemployed and 40% were self-employed.

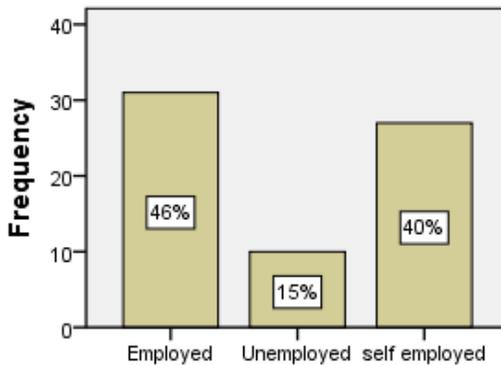


Figure 4.4 Employment status.

4.3.7 Banking services with other banks

The respondents were asked to indicate whether they enjoyed banking services with other banks other than KCB. The findings were as indicted in Figure 4.5. The findings indicate that 57% of the respondents indicated that they enjoy banking with other banks and 43% indicated that they didn't.

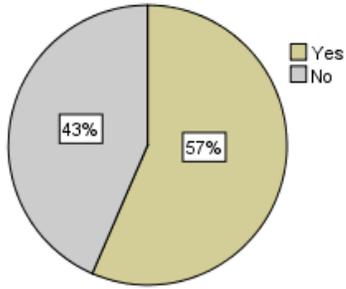


Figure 4.5 Banking services with other banks

4.4 Descriptive Analysis for Study Variables

4.4.1 Customer Service and Customer Retention

This section presents the findings on customer service quality levels and the levels of customer retention in KCB.

4.4.1.1 Customer Service Quality at KCB

Over 87% of the customers of KCB perceived the customer service quality levels to be good and very good. This implies that to most customers, the service levels at KCB were good. This is deduced from 33% of the customers indicating the customer service levels were very good, 54% indicated they were good, 7% indicated they were average and 4% indicated they were poor and 1% indicated that they were very poor.

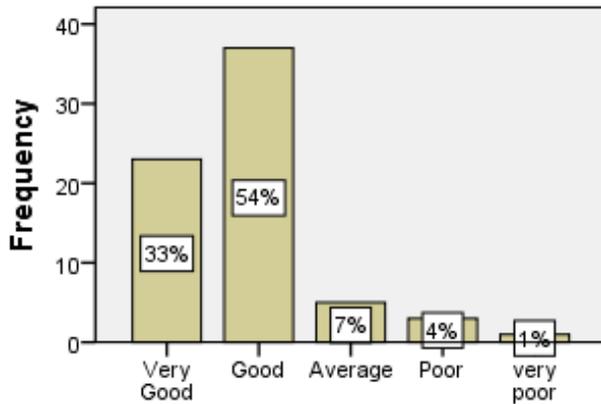


Figure 4.6 Customer Service Quality Levels

4.4.1.2 Changing KCB as your Primary Bank

Customer retention levels were measured in this study. Customers were asked of their probability of changing KCB as their primary banker. 10% indicated that their probability was very high, 7% of the customers indicated that their probability was high, 38% indicated it was average, 20% indicated it was low and 25% indicated it was very low.

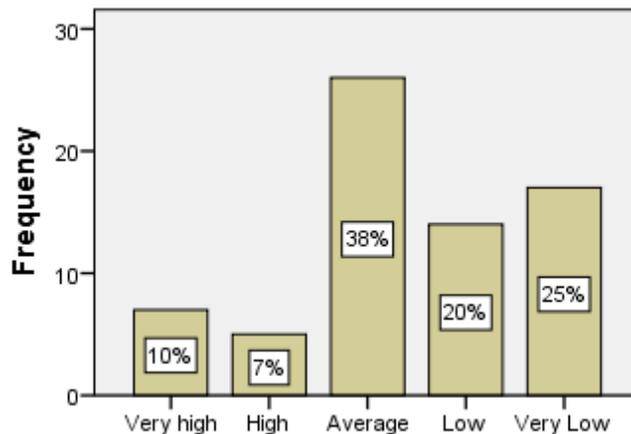


Figure 4.7: Changing KCB as the Primary Banker

4.4.1.3 Measurement Customer Service Quality.

The study sought to find out the respondents opinion in reference to customer service quality of KCB bank and the results presented in table 4.4. Majority of the respondents at 86% , agreed that the customer service levels at KCB bank are good and thus they are loyal customer, 81% agreed that the service levels at KCB are good and therefore they frequent the bank for services, 21% agreed that they have many complaints about services at KCB and therefore feel they should change bankers, 84% state that KCB attends to their enquiries and they will therefore continue banking with KCB, 62% agreed that KCB has provided adequate channels for customers to register complaints, 93% agreed that products and services provided by KCB satisfy them and therefore they plan to stay at the bank, 83% agreed that they can access KCB banking services on technologies such as Mobile Phones and therefore will stay with KCB, 97% agreed that they feel that their finances are secure at KCB and cannot change their bank, 91% agreed that they have a good relationship with KCB and will therefore not change the bank, 93% agreed that KCB is a reliable partner and therefore will not change the bank and 90% agreed that staff at KCB are friendly and helpful, and therefore will not change the bank.

Table 4.4 Customer Service Quality

Customer service quality	SA (%)	A (%)	N (%)	D (%)	SD (%)
The customer service levels at KCB bank are good and thus I am loyal customer	37	49	7	7	0
The service levels at KCB are good and therefore I frequent the bank for services	33	49	9	9	1
I have many complaints about services at KCB and therefore feel I should change bankers	4	16	10	54	15
KCB attends to my enquiries and I will therefore continue banking with KCB	30	54	10	6	0
KCB has provided adequate channels for customers to register complaints	18	44	29	9	0
Products and services provided by KCB satisfy me and therefore I plan to stay at the bank	33	59	4	3	0
I can access KCB banking services on technologies such as Mobile Phones and therefore I will stay with KCB	47	36	17	0	0
I feel that my finances are secure at KCB and I cannot change my bank	56	41	3	0	0
I have a good relationship with KCB and will therefore not change my bank	49	43	4	4	0
KCB is a reliable partner and therefore I will not change my bank	50	43	3	4	0
Staff at KCB are friendly and helpful and therefore I will not change my bank	40	50	6	4	0

KEY: SA-Strongly Agree, A-Agree, N-Neutral, D- Disagree, SD-Strongly disagree

4.4.2 Distribution Channels and Customer Retention

4.4.2.1 Channels used in Accessing Services

30% of the respondents to this study indicated that they used bank branches to access banking services from KCB. In addition, 23% of the customers indicated that they used mobile phones, 13% used the internet to access services, 16% utilized ATM's, 6% utilized KCB agents also referred to as Mtaani Agents and 13% used all the said channels.

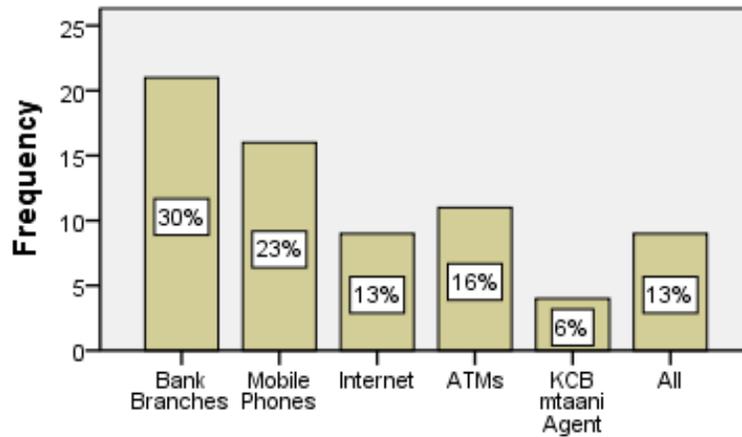


Figure 4.8: Distribution Channels used by KCB

4.4.2.2 Frequency of Distribution Channels`

The study sought to find out the frequency of distribution channels. Table 4.5 indicates that most of the respondents, 41% used bank branches every time in accessing bank services, 41% also used mobile phones. A few, 21% of the respondents used internet banking every time, 37 % of the respondents used ATMs almost every time, a minority of 15% of the respondents used KCB Mtaani agent every time, while 11% of the respondents used social media to access services every time.

Table 4.5: Frequency of Distribution Channels

Frequency of Distribution channels	Every time (%)	Almost every time (%)	Sometimes (%)	Almost never (%)	Never (%)
Bank branches	41	30	23	1	4
Mobile phones	41	23	18	8	11
Internet banking	21	12	21	16	30
ATM	27	37	19	4	12
KCB Mtaani agent	15	12	33	12	27
Social media	11	13	13	19	45

4.4.2.3 Measurement of Distribution Channels

The study sought to find out the respondents opinion in reference to distribution channels of KCB bank and the results presented in table 4.6. Majority of the respondents 91% agreed that KCB offers a number of channels through which they can access banking products and

services and therefore they are loyal customers, 64% agreed that they can use the internet to access banking services at KCB and therefore will continue banking with KCB. A majority being 77% of customers agreed that they can access banking services at KCB through KCB ATMs, and therefore plan to stay with KCB, 80% agreed that they can access banking services from KCB through their phone, and therefore will continue banking with the bank, 78% agreed that ATMs of KCB are easily accessible and therefore plan to stay with the bank, 77% agreed that technologies used to access services from KCB are reliable and therefore will stay with KCB, 81% agreed that they are pleased with the technologies used to deliver services at KCB and therefore are satisfied, 70% agreed that KCB banking halls are neat and tidy and therefore will regularly visit the branch for services, 57% agreed that they are served very fast at KCB and therefore will regularly visit the bank branch, 73% agreed that employees at KCB branches are very friendly and therefore will regularly visit the bank, 84% agreed that employees of KCB are knowledgeable about the products and services, and therefore will regularly visit the bank branches, 44% agreed that KCB Mtaani agents are reliable and therefore will regularly visit the agents and 53% agreed that KCB Mtaani agents are friendly and therefore will regularly visit the agents for banking services.

Table 4.6 Distribution Channels

Distribution channels	SA (%)	A (%)	N (%)	D (%)	SD (%)
KCB offers a number of channels through which I can access banking products and services and therefore I am a loyal customer	46	46	7	1	0
I can use the internet to access banking services at KCB and therefore I will continue banking with KCB	29	36	20	14	1
I can access banking services at KCB through KCB ATMs therefore I plan to stay with KCB	36	41	19	4	0
I can access banking services from KCB through my phone therefore I will continue banking with the bank	55	25	17	3	0
ATMs of KCB are easily accessible and therefore I plan to stay with the bank	36	42	19	3	0
Technologies used to access services from KCB are reliable and therefore I will stay with KCB	49	28	20	3	0
I am pleased with the technologies used to deliver services at KCB and therefore I am satisfied	47	34	18	1	0
KCB banking halls are neat and tidy and therefore I regularly visit the branch for my services	30	40	26	4	0
I am served very fast at KCB and therefore I regularly visit the bank branch	21	36	21	19	3
Employees at KCB branches are very friendly and therefore I regularly visit the bank	27	46	13	13	1
Employees of KCB are knowledgeable about the products and services therefore I regularly visit the bank branches	30	54	6	10	0
KCB Mtaani agents are reliable and therefore I regularly visit the Agents	17	27	47	9	0
KCB Mtaani agents are friendly and therefore I regularly visit the agents for my banking services	21	31	40	7	0

KEY: SA-Strongly Agree, A-Agree, N-Neutral, D- Disagree, SD-Strongly disagree

4.4.3 Cost of Services and Customer Retention

This section presents the findings of the study on the effect of cost of services on customer retention levels.

4.4.3.1 Charges of KCB

Majority of the respondents (66%) felt that the charges of KCB were average and thus fair. 6% percent of the customers felt that the charges of KCB bank were very high, 19% felt the charges were high, 3% felt they were low and 7% of the customers indicated that the

charges were very low. The findings show that to most customers the charges levied by KCB were average and fair.

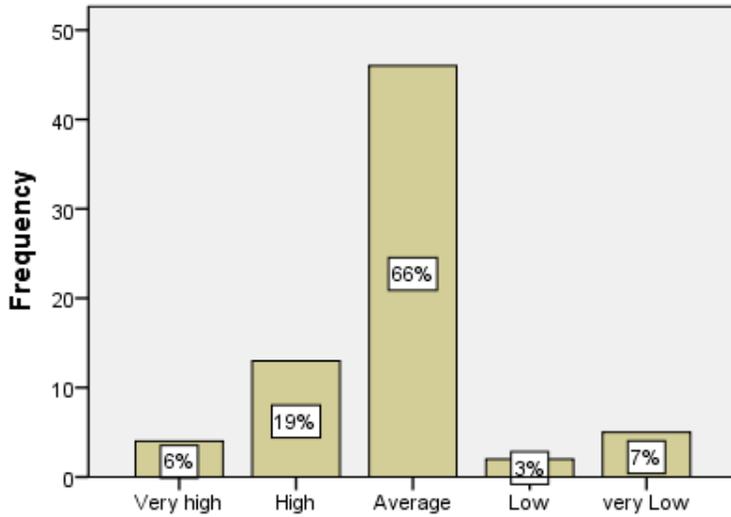


Figure 4.9 Cost of Accessing Services

4.4.3.2 Cost of Services

Respondents to this study were asked to indicate the costs they incurred in accessing banking services e.g. transport costs, internet costs etc. Majority of the respondents (51%) indicated that the costs they incurred was average, 9% indicated the costs was very high, 21% indicated the costs was high and 4% indicated they was low and 14% indicated that the cost was very low. The findings show that overall customers, incurred average costs in accessing banking services and products at KCB.

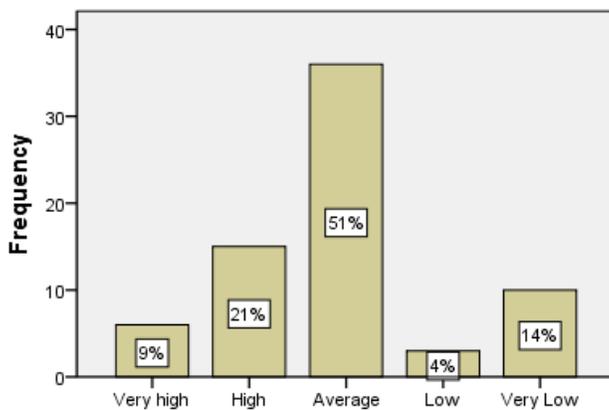


Figure 4.10 Cost of Accessing Banking Services

4.4.3.3 Cost of Services

The study sought to find out the respondents opinion in reference to cost of banking services of KCB bank and the results presented in table 4.7. Majority of the respondents 86% agreed that KCB charges are average and therefore plan to stay with the company, 46% agreed that the queues at KCB are very long which leads to them wasting a lot of time, 33% agreed that KCB charges to access services via platforms such mobile phone are too high, 19% agreed that Bank charges on loans at KCB are high as compared to other banks, 33% agreed that KCB charges are low when accessing services at KCB Mtaani agents, 27% agreed that KCB branches are located far from them and have to incur a lot of funds to access KCB services, 30% agreed that KCB charges are high when one accesses services at the bank's branches and 24% agreed that the monthly charges on accounts at KCB are high.

Table 4.7 Cost of Services

Cost of services	SA (%)	A (%)	N (%)	D (%)	SD (%)
KCB charges are average and therefore I plan to stay with the company	24	61	11	3	0
The queues at KCB are very long which leads to me wasting a lot of time	19	27	14	33	7
KCB charges to access services via platforms such mobile phone are too high	6	27	30	30	7
Bank charges on loans at KCB are high as compared to other banks	9	10	24	50	7
KCB charges are low when accessing services at KCB Mtaani agents	6	27	49	19	0
KCB branches are located far from me and I have to incur a lot of funds to access KCB services	10	17	20	46	7
KCB charges are high when you access the services at the banks' branches	3	27	19	44	7
The monthly charges on accounts at KCB are high	4	20	26	43	7

KEY: SA-Strongly Agree, A-Agree, N-Neutral, D- Disagree, SD-Strongly disagree

4.4.4 Retention

The study sought to find out the respondents opinion on retention at the bank and the results presented in table 4.8. From the findings, 90% agreed that they are likely to say positive things about KCB to other people, 90% agreed that they are likely to recommend KCB to someone who seeks their advice, 90% agreed that they are likely to encourage friends and others to do business with KCB 90% agreed that they are likely to consider KCB as first choice for future banking transactions and 90% agreed that they are likely to do more business with the KCB bank in the coming months.

Table 4.8 Retention

Retention	SA (%)	A (%)	N (%)	D (%)	SD (%)
I am likely to say positive things about KCB to other people	49	41	3	7	0
I am likely to recommend KCB to someone who seeks my advise	46	44	3	7	0
I am likely to encourage friends and others to do business with KCB	47	43	3	7	0
I am likely to consider KCB as my first choice for future banking transactions	44	46	6	4	0
I am likely to do more business with the KCB bank in the coming months	57	33	4	6	0

KEY: SA-Strongly Agree, A-Agree, N-Neutral, D- Disagree, SD-Strongly disagree

4.5 Inferential Statistics

4.5.1 Modelling

The data analysis followed a two-step approach. First the measurement model was assessed and analyzed to confirm construct validity. The second step involved establishing the relationships between all latent variables using structural equation modelling (SEM). PLS algorithm and Bootstrapping algorithm was run in SmartPLS 2.0

4.5.2 Measurement Model

The confirmatory factor analysis was conducted in order to assess the extent to which the observed data fits the pre-specified theoretically driven model. The model fits for the measurement model in partial least squares (PLS) were validated using four criteria. These were construct uni-dimensionality, construct reliability, convergent validity and discriminant validity (Hair *et al.*, 2011).

4.5.3 Construct Uni-dimensionality

Construct uni-dimensionality was initially assessed by verifying that the measurement items measured the specific construct. Further construct uni-dimensionality was performed through the verification of the cross loadings of scales and constructs to ensure that the scales loaded heavily on the relevant constructs. The loadings and cross loadings are indicated in table 4.9. All the loadings and cross loadings were adequate and demonstrated construct uni-dimensionality

Table 4.9 Cross Loading

Item	Cost of services	Customer retention	Service quality	Distribution channel	T Statistics	p values
CO2	0.75				16.73	0.00
CO3	0.69				11.66	0.00
CO4	0.76				13.63	0.00
CO7	0.67				11.85	0.00
CO8	0.81				23.31	0.00
CR1		0.91			61.92	0.00
CR2		0.95			108.38	0.00
CR3		0.93			75.91	0.00
CR4		0.88			38.38	0.00
CR5		0.79			16.70	0.00
CS1			0.86		41.08	0.00
CS10			0.86		25.67	0.00
CS11			0.72		12.87	0.00
CS2			0.59		7.31	0.00
CS4			0.73		17.14	0.00
CS6			0.76		17.23	0.00
CS9			0.77		16.93	0.00
DC1				0.51	6.82	0.00
DC10				0.86	28.70	0.00
DC11				0.83	28.39	0.00
DC8				0.73	14.69	0.00
DC9				0.75	16.78	0.00

4.5.4 Construct Reliability

Construct reliability was assessed by computing the composite reliability and the cronbach alpha of the constructs. Composite reliability measures were evaluated by using SmartPLS. The Cronbach alphas were all above the 0.6 threshold as specified for PLS analysis (Hair *et al.*, 2010) indicating good reliability and composite reliability of reflective items were all above the acceptable 0.7 threshold which means all the variables in the study exhibited construct reliability. All constructs were viewed to have acceptable reliability levels because the composite reliability scores for all constructs were above the 0.7 threshold. Details of construct reliability are presented in table 4.10.

Table 4.10 Reliability of Constructs

Construct	Number of items	Composite Reliability	Cronbach's Alpha	Items removed
		>0.7	>0.6	
Cost of services	5	0.855	0.795	CO1,CO5,CO6
Customer retention	5	0.951	0.935	None
Customer Service quality	7	0.904	0.875	CS3,CS5,CS7,CS8
Distribution channel	5	0.858	0.793	DC2,DC3,DC4,DC5, DC6,DC7,DC12,DC13

4.5.5 Convergent Validity.

Convergent validity refers to the degree to which two or more items that measure a construct in theory converge or share high proportion of variance in reality. It is measured by three measures; factor loadings, composite reliability (CR) and average variance extracted (AVE). Convergent validity is achieved if composite reliability values for the construct are least 0.7 and the average variance extracted (AVE) are at least 0.5 (Hair *et al.*, 2010). Also all factor loadings should be statistically significant and should be above 0.5, as indicated in table 4.11.

Table 4.11: Convergent Validity

Construct	Number of items	AVE (Average variance extracted)
Cost of services	5	0.543
Customer retention	5	0.797
Customer Service quality	7	0.772
Distribution channel	5	0.554

4.5.6 Discriminant Validity.

Discriminant Validity is the extent to which items measuring one construct differentiate from items measuring other constructs. There are two criteria to assess the discriminant Validity. The first criterion is that the inter-construct correlation should not be higher than 0.9. The second criterion is the square root of the Average Variance Extracted (AVE) of the construct should be larger than its correlation with the other constructs. As in correlation matrix illustrated in table 4.12 the diagonal elements are the square root of the

average variance extracted of all the latent constructs. The discriminant validity is assumed if the diagonal elements are higher than other off-diagonal elements in their rows and columns. This situation is apparently the case in the correlation matrix and thus the discriminant validity is confirmed.

Table 4.12 Discriminant Validity

Constructs	Cost of services	Distribution channel	Customer retention	Service quality
Cost of services	0.737			
Distribution channel	-0.100	0.744		
Customer retention	-0.441	0.619	0.893	
Service quality	-0.365	0.702	0.811	0.879

4.6 Structural Model Estimation

Having established the validity and the reliability of the measurement model, the next step was to test the hypothesized relationship by running PLS algorithm and Bootstrapping algorithm in SmartPLS 2.0.

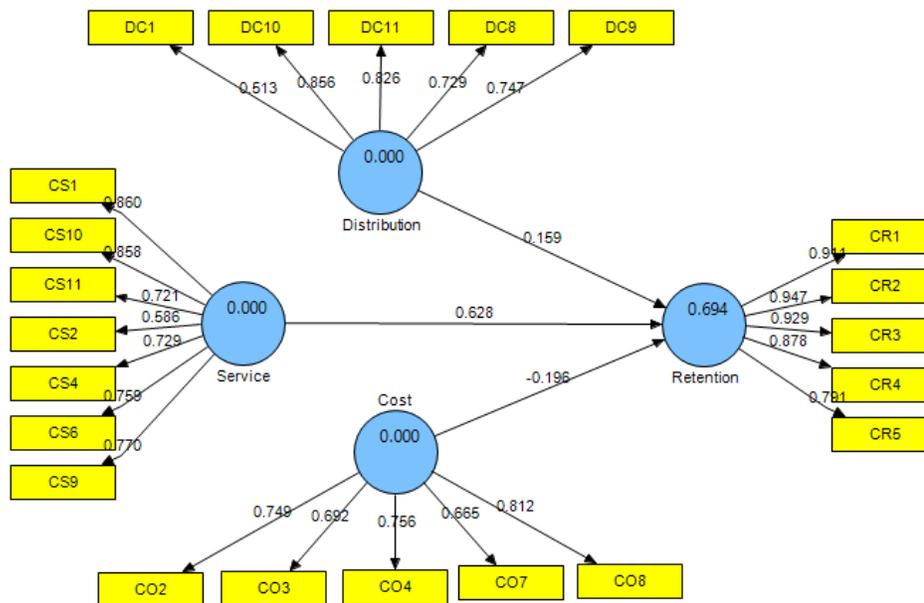


Figure 4.11: Items Loadings and Path Coefficient

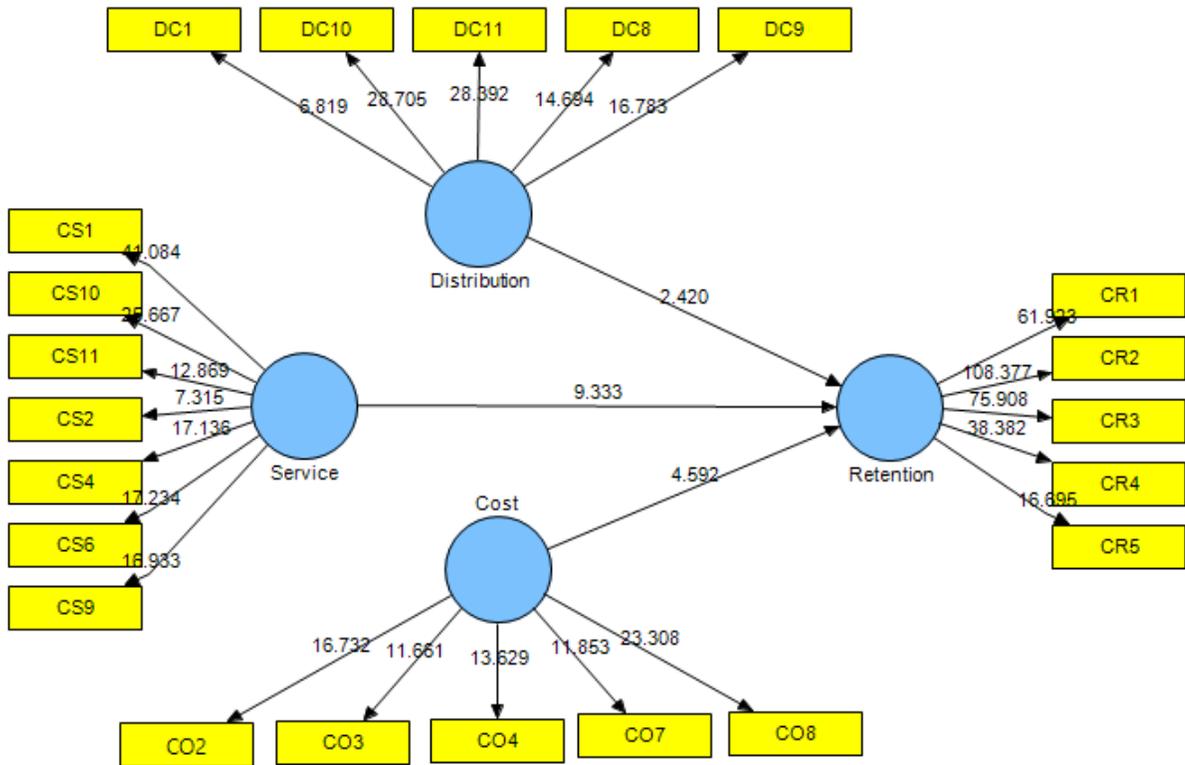


Figure 4.12: Significance of Factor Loadings and Path Coefficient

Table 4.13: Regression Coefficients

Path	Regression coefficients	Standard Error	T Statistics	P values
Cost -> Retention	-0.196	0.043	4.593	0.000
Distribution -> Retention	0.159	0.066	2.420	0.017
Service -> Retention	0.628	0.067	9.333	0.000

4.7 Cost of Services and Customer Retention

Cost of services was found to have a negative and statistically significant relationship with Customer retention. The path coefficient was positive and significant at the 0.05 level ($\beta = -0.196$, T-value = 4.593 $p < 0.05$) as indicated in table 4.12 and figure 4.11 and 4.12. The negative relationship means if, Cost of serve increases by 1, Customer retention in will decrease by 0.196.

4.7.1 Distribution Channel and Customer Retention

Distribution channel was found to have a positive and statistically significant relationship with Customer retention. The path coefficient was positive and significant at the 0.05 level ($\beta=0.159$, T-value =2.420 $p<0.05$) as indicated in table 4.12 and figure 4.11 and 4.12. The positive relationship means if, distribution channel increases by 1, Customer retention in will increase by 0.159.

4.7.2 Customer Service Quality and Customer Retention

Customer Service quality was found to have a positive and statistically significant relationship with Customer retention. The path coefficient was positive and significant at the 0.05 level ($\beta=0.628$, T-value =9.333 $p<0.05$) as indicated in table 4.12 and figure 4.11 and 4.12. The positive relationship means if, Customer Service quality increases by 1, Customer retention in will increase by 0.628.

4.7.3 Predictive Relevance of the Model

The quality of the structural model can be assessed by R^2 which shows the variance in the endogenous variable that is explained by the exogenous variables. Based on the results reported in figure 4.11, the R^2 was found to be 0.694 indicating that Customer Service quality, distribution channels and cost of services can account for 69.4% of the variance in the Customer retention.

CHAPTER FIVE

5.0 SUMMARY, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter is presented in four parts, which includes the chapter summary, discussion of key findings against reviewed literature, conclusions and recommendations. The chapter summary covers the purpose of the study. It then proceeds to discuss main findings. The third section covers a discussion on study conclusions. This is based on the findings outlined in Chapter 4. The chapter finally concludes with recommendations for practice and future studies.

5.2 Summary

The overall goal of the study was to investigate the various factors that determined customer retention rates at KCB. To achieve this, the study sought to analyze the effect of customer service quality levels on customer retention, to investigate the effect of service or product delivery channels on customer retention and examine the effect of cost of services on customer retention rates at KCB.

The study adopted a descriptive research design using a quantitative methodology using KCB as the case of the study. The population of the study was drawn from existing KCB customers with accounts that had been active in the months May to June 2017. Using a stratified random sampling technique a total of 138 customers were selected for use in the study. Data was collected using a questionnaire that was personally administered by the researcher for ease of data collection and for purposes of explaining the contents of the questionnaire to the customers. Data collected was edited and coded in SmartPLS 2.0 and SPSS vs. 23 for analysis using descriptive statistics such as means, modes, minimums, maximums and frequency distributions. To infer relationships Pearson's momentum correlation coefficient was applied. Analyzed data was presented using tables and figures.

Key findings of this study revealed that most of KCB customers perceived customer service quality levels to be good. Consequently this enhanced the bank's customer retention rates. Service quality attributes that improved customer retention rates included: the bank attending to complaints promptly with few customers having complaints. It was also

viewed that the bank boasted of customer responsive products and services. The use of technology in service delivery was also popular amongst customers. A large majority of customers expressed that they enjoyed a good relationship with the bank; the bank was reliable, staff friendly and helpful. The relationship between the bank and customers was also key in improving customer retention rates.

Distribution channels had a positive relationship with customer retention rates. The availability of multiple product distribution channels improved customer retention rates. A majority of customers expressed that the bank had provided them with a number of channels through which they can enjoy banking services. It was also established that reliability of these channels was key in retention. The study also revealed that staff at branches, a distribution channel, were friendly. The use and accessibility of technologies such as mobile phones, ATM's and the internet, enhanced customer satisfaction. Others include faster customer service delivery at branches as well as neat branches, customer friendly and knowledgeable employees.

The cost of services is also a major significant factor influencing customer retention at KCB. Customers perceived charges at KCB to be average and fair. The findings show that overall customers incurred average costs in accessing banking services and products at KCB. Nevertheless, customers also significantly opined that the queues at KCB are very long which leads to them wasting a lot of time, and that KCB charges to access services via platforms such mobile phone are too high.

The findings on Retention revealed that a majority of customers are likely to: say positive things about KCB to other people, recommend KCB to someone who seeks their advice, encourage friends and others to do business with KCB, consider KCB as first choice for future banking transactions and do more business with the KCB bank in the coming months.

5.3 Discussion

5.3.1 Customer Service and Customer Retention

Customer service quality is a key factor that determines customer retention rates amongst most companies and firms around the world. Similar to the findings of this study, Dhandabani (2010) found that the levels of customer service in any organization and

business informs the customer retention rates. In this study, it was found that the customer service levels had a strong significant correlation to the levels of customer retention at KCB. This implies that customer service quality was a key determinant of customer retention rates. Similar findings were presented by; Venetis *et al.* (2004); Riel *et al.* (2001) and Venetis and Ghauri (2004).

In KCB, the relationship between customer service and customer retention levels is determined by a number of customer service quality attributes. These includes: the levels of service delivery, low number of complaints and resolution of the complaints, provision of customer demand and needs responsive products and services, security of customer finances, good working relationships between the bank and the customers, and friendly and effective employees in the bank. This consequently, meant that the service quality customer retention relationship was influenced majorly by employee's service delivery, security and products, since complaints and complaints resolution is a function of the employees. All this aspects enhanced a good working relationship between the customer and the bank.

In comparison to the findings of this study, Venetis and Ghauri (2004) investigated the relationship between customer retention, marketing and service quality utilizing a model that found that exceptional customer service quality enhances retention and leads to the development and extension of profitable relationships between the customers and companies. The findings of this study are also in relation to those of Parasuraman *et al.*, (1990) in their SERVQUAL model on customer service which found key dimensions of service quality as competence, courtesy, credibility, security, access, communication, knowing the customer, tangibles, reliability and responsiveness. These are similar to those of findings since competence, communication, courtesy and reliability and employee centric, security was also identified in this study while knowing the customer entails building relationships with the customer, which was also identified in the study.

Similar to the findings of this study, Dema and Koksai (2014) noted that the relationship between service quality and customer retention in the banking sector was majorly influenced by number of complaints and the resolution of this complaints. According to the study, customers in the banking sector have major complaints about the services offered in banks and the resolution of this disputes informs the customer retention rates in the commercial banks. This is similar to the findings of this study which found that most customers in KCB did not have complaints about the services and products offered by the

bank. In addition, majority of the customers felt that those complaints, had their complaints resolved quickly and efficiently by the bank's employees. This validates the conclusions of Siddiqi *et al.*, (2011) who concluded that for competitiveness of commercial banks there must be adequate strategies and systems to build on structures, capabilities and strategies that promote disputes and complaints resolution in the commercial banks.

Dispute resolution especially in matters revolving the customer's finances promotes the feeling of security of finances for the customers. According to Mishra *et al.*, (2010) commercial banks that resolved disputes and offered exceptional service quality make their customers feel secure and that their finances are secure. Consequently, security of finances becomes a key determinant of customer retention in commercial banks. Similarly, in this study security of finances was identified as a key factor determining customer retention levels at KCB. This supports the findings of Knell and Stix (2009) who found that the security of finances was key and essential for trade and customer relationships especially in the banking sector. According to Knell and Stix (2009), gaining customers trust and making them feel secure, has a great influence on the bank performance. Absolutely banks should be reliable in their decisions. The essential thing is not only to be reliable and trustworthy, but also trustful to their customers and to develop a win- win relationship with them. As Bell (2000) indicates in his study, what customers expect from their bankers is to listen, care and resolve their problems.

5.3.2 Distribution Channels and Customer Retention

Banks around the world distribute their products through a variety of channels. Traditionally, banking services were offered in banking halls. However, this has been revolutionized by the advent and growth of technology. Modern banks are leveraging on technology to offer banking services through channels such as Automated Teller Machines, Online Banking Channels, mobile phones and Point of Sale machines (Blount, 2011; Dholakia, Zhao, & Dholakia, 2005; Kumar & Venkatesan, 2005; Lee & Kim, 2008; Kushwaha & Shankar, 2013). This trend is clearly similar in the Kenyan banking sector where KCB was found to offer banking products and services using the traditional banking halls and leveraging on technologies such as ATMs, the Internet, mobile phones and banking agents to offer banking services and products (Mbithi, 2013).

The relationship between distribution channels and customer retention is informed by the accessibility to banking services and products easily, efficiently and effectively. The ease of access to banking services promotes customer satisfaction and experience which enhances customer retention rates (Axelsson, 2008).

This study found that at KCB there existed a relationship between the distribution channels used and the levels of customer retention. The correlation analysis of the variables shows that a significant relationship of 0.264 existed between the distribution channels used and the levels of customer retention. Nevertheless this relationship was weak. The findings validate the findings of Dholakia, Zhao, and Dholakia, (2005); Kumar and Venkatesan, (2005); Lee and Kim, (2008) all of whom found that the delivery of services using multiple platforms and channels plus the use of advancements in technology for service delivery enhanced customer retention rates in companies.

This study found that KCB has heavily leveraged on technology to delivery banking services and products. Majority of customers in this study indicated that they preferred to access banking services using mobile phones, Automated Teller Machines, Bank Branches, Mtaani Agents and through the use of the Internet. Furthermore, customers indicated that the provision of services through a number of channels enhanced customer retention rates and enhanced customer satisfaction rates. Similarly, Kushwaha and Shankar (2013) found that the provision of services over multiple channels as well as the use of technology promoted higher levels of customer satisfaction as well as customer retention. Also Nyangosi and Arora (2011) found that customers often used internet banking, mobile banking and ATM technology for transacting and as such were additional ways to retain clients. Therefore banks and other commercial institutions were obligated to adopt internet banking to sustain customer loyalty.

However, most findings in the international setting indicate that most customers prefer to utilize the internet to access banking services and products. Scholars such as Neslin *et al.* (2006), Plakoyiannaki *et al.*, (2008); Bettencourt and Ulwick, (2008); Fleming *et al.*, (2010); Xue *et al.*, (2007), Roberts and Toleman (2007), Hines (2004) and Hoeg (2005) found that there was preference on the use of internet banking and electronic banking systems to access banking services and products. On the other hand, this study found that most customers preferred to access and consume banking products using mobile phones, ATM's and branches in their descending order of preference respectively.

The major departure in these findings is the cultural, growth and infrastructural levels in the two sets of studies. While in the studies reviewed the environment in which they were conducted had a wide internet infrastructure and reach which was cost friendly, in Kenya internet access is mainly in towns and urban areas and is very expensive for the common person. Furthermore, unlike in other countries, Kenya has experienced phenomenal growth in the development, use and advancement of mobile phone technology use in the provision of banking services and products. Furthermore, majority of the customers in Kenya own mobile phones which are cheap and easy to access. These major differences could explain the differences in preferences of accessing banking products between the internet and mobile phone. However, internet use is still high since mobile phone technology for banking also depends on the use of internet.

While technology has been widely used in banking services, banking halls still remain a key distribution channels for banking products and services. Findings in this study and those in other studies validate the fact that though the traffic in banking halls has reduced, they still remain a key point of service delivery for banks. Consequently, the accessibility of banking, halls, neat banking halls, friendly staff and employees in the banking halls and knowledgeable employees enhance customer retention levels. This was identified in this study as well as in the study by Berry (1996).

5.3.3 Cost of Services and Customer Retention

Cost of services and customer retention rates share a correlation. According to this study the perception of cost of services by customers had a positive correlation to customer retention rates though the correlation was weak. Customers in KCB perceived costs to access and use banking services as average, and thus satisfied their needs and wants. This enhanced the customer retention rates for KCB customers.

Similar to the findings of this study, Abratt and Russell (1999) found that the cost of accessing banking services, fees charged when accessing banking services and other associated costs such as time, internet fees and transport fees for the customer, influence the customer retention rates in commercial banks. In fact a study by Power and Associates (2012) concluded that the overall cost of banking in commercial banks significantly determines the banking institution of choice for customers. The recent decline in the cost of banking services and products has been to enhance customer retention. But this has not

been prevented loss of customers to cheaper and more financial convenient banking competition.

Ghosh (2014) validates the findings of this study in his study which concluded that the costs, fees and charges imposed by commercial banks which include withdrawal challenges, deposit fees, interest rates, and monthly charges on checking accounts lead to customer dissatisfaction and frustration which motivates them to open and operate accounts in smaller banks with more affordable and free services. In a study by the consultancy firm Deloitte (2013) customers indicated that many customers in large and midsize banks, have little or no clue of how much cost a bank incurs, during the process of offering services customers expect from a bank. The lack of knowledge discourages customers, subsequently translating to account closure.

The positive correlation between customer retention and banking charges and fees at KCB bank could be due to the perception of customers who felt that the charges and fees imposed by KCB were average when compared to those of other banks operating in Kenya. Consequently, there was a high retention rate for customers due to the fair prices of banking products and services. This validates the findings and conclusions of Msoka and Msoka (2014) in a study on Tanzanian banks which found that price fairness and average service charges enhanced customer retention rates in Tanzanian banks. This supports the findings of Kaura (2012) and Rootman *et al.*, (2012) who concluded that there was great concern by customers on the charges and fees imposed by commercial banks including interest rates. All this factors were identified and deduced from the findings of this study.

While the costs imposed by the banks on customers was a major determinant of customer retention rates, this study found that the associated costs such as internet costs and transport costs incurred by customers also influenced the customer retention rates. Furthermore, this study found that the time wasted in commercial banks halls where there were long queues informed their retention rates. This is clearly illustrated as high costs of accessing banking services when accessing services in banking halls and agents reduced their preference by customers in accessing banking services and products. Consequently, it can be implied that associated costs had an influence on the levels of customer retention in KCB. Other cost related factors that influenced customer retention rates included the location of branches closer to the employees which reduced the associated costs.

5.4 Conclusions

5.4.1 Customer Service and Customer Retention

This study concludes that there exists a positive relationship between the levels of customer service and customer retention rates. The higher the customer service quality levels the higher the retention rate for KCB customers.

The major determinants of customer service quality levels included: friendly, knowledgeable and helpful employees, leveraging on technology to deliver banking products and services, fast and efficient dispute resolution and the provision of products and services that were responsive to the customer needs and wants. All these factors influenced the relationship between the customer and the bank and thus customer retention rates.

5.4.2 Distribution Channels and Customer Retention

A positive relationship exists between the distribution channels and customer retention rates. Delivery of banking services and products over multiple and easily accessible platforms enhances customer retention rates in KCB. Secondly, this study concludes that the use of technology in delivery of banking products and services enhances customer retention rates. The technologies in use include use of mobile telephony, the internet, automated teller machines and Point of Sale machines. While technology use in service delivery is key, the use of branches still remains key and vital for customer service delivery. As a consequence, this study concludes that banks branches remain a key determinant of customer retention and thus employees in banking halls must be knowledgeable, friendly and banking halls neat and attractive to the customer.

5.4.3 Cost of Services and Customer Retention

The relationship between cost of services and customer retention in this study is positive. Consequently, customers must perceive their costs to serve as low or average to enhance a high customer retention rate. Some of the product related costs that customers analyze in making banking choices includes interest rates, monthly charges and banking charges on products and services. Customers often compare this to those of other banks and make informed decisions. Finally, this study concludes that associated costs are a key determinant of customer retention rates. Associated costs include transport costs, internet

charges, time wasted or used in accessing banking services as well as costs of purchasing and using mobile phones that can support mobile banking applications and services.

5.5 Recommendations of the Study

5.5.1 Recommendations for Improvement

Based on the findings of this study, below are the recommendations for improvement.

5.5.1.1 Customer Service and Customer Retention

This study found that customer service levels and customer retention share a positive and strong relationship. Consequently, this study recommends that KCB should continually improve its customer service levels. This can be done through training of employees to be fast, knowledgeable and friendly to customers. Secondly, KCB should endeavor to continually cultivate good relationships with its customers which promotes a feeling of reliable partners. This is key in enhancing customer retention and loyalty. Good relationships can be cultivated through provision of customer responsive products and services, attending to complaints of customers and promoting a feeling of security of finances for the customer.

5.5.1.2 Distribution channels and Customer Retention

KCB leverages on a number of distribution channels to provide banking products and services. Since a positive relationship exists between distribution channels and customer retention this study recommends that KCB continually invests in modern, new and innovative platforms to deliver banking products and services. This is because multichannel delivery of services and products enhances customer retention rates. Secondly, this study recommends that massive customer awareness campaigns and education be done on the use of Mtaani agents. This is because despite them being an innovative strategy for service and product delivery, their use is limited and least preferred by customers.

Thirdly, this study recommends that since KCB has invested heavily and utilized technology in the delivery of services, it must make sure of the reliability of this technologies. This is because technologies are a key distribution strategy preferred by customers. However, sometimes it is unreliable due to downtimes and failures. Appropriate

steps must be taken to ensure reliability of the technologies at all times. Finally, this study recommends that KCB should continually invest in bank branches. This is because they remain to be a key driver of service delivery and provision in commercial banks. Consequently, the bank branches must be neat and attractive and manned by employees who are knowledgeable, friendly and helpful to employees.

5.5.1.3 Cost of Services and Customer Retention

The cost of services and customer retention have a relationship that is positive. Consequently, this study recommends that KCB should continually review its pricing structure to ensure that it is competitive in comparison to those of other banks. This is because the perceptions of cost friendliness are premised on other related charges and costs.

Secondly, this study recommends that KCB should invest in the bank branches and especially customer management systems in banks because long queues were a major challenge for KCB. Customers complained that the queues at KCB branches were long and thus wasted their time. Furthermore, KCB should invest in a system that lowers the customer associated costs. This includes the costs associated with accessing banking services at Agents, costs associated with the use of technology such as internet costs and transport costs incurred by customers to travel to branches. This can be achieved by innovating in the KCB customer loyalty program Simba points, to allow for redemption of points in the system for airtime to access internet, or for paying of transport costs such as fuel and fares for customers. This could be a major strategy towards reducing the associated costs for KCB bank customers.

5.5.2 Recommendations for Further Studies

This study recommends that a similar study should be replicated in a non-banking sector. This would enhance comparability of the study as well as provide interesting points for discussions on the similarities and dissimilarities of determinants of customer retention rates in various industries. Secondly, this study should be extended to analyze the independent variables to organization performance. Consequently, the study should investigate the relationship between service quality and organization performance, product delivery and distribution channels, cost of services and organization performance in the banking sector and other industries.

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APPENDICES

Appendix I: Introductory Letter

Patricia Chuani
USIU - Africa
P. O. Box 14634 - 00800
Nairobi

Dear Sir/Madame,

RE: QUESTIONNAIRE

I am carrying out a research on customer retention strategies as three relates to the Banking Industry in Kenya. This is in partial fulfillment of the requirement of the Masters of Business Administration in International Business.

The study uses KCB Bank Kenya Limited as a case study, from which you have been selected as a respondent. The results of this study will benefit KCB group and other banks in the regions in employing relevant customer retention strategies, to ensure sustained business growth. The study will also provide opportunities for the bank to improve on customer service as a key driver to customer retention.

This is an academic research and all information collected will be handled in strict confidence. Your name will not appear anywhere in the report.

Kindly spare sometime to complete the attached questionnaire.

Thank you in advance.

Yours sincerely

Patricia Chuani

Appendix II: Questionnaire (Customer)

This questionnaire is part of a study that is assessing determinants of customer retention in Kenyan Commercial Banks using KCB Bank Kenya Limited as a case study. Kindly indicate your preference among alternative answers for each question by ticking in the appropriate box. Where alternative answers are not provided, fill in the gaps provided. Thank you for your contribution. Respondents are assured of the confidentiality of this exercise because it will be solely used for academic purpose.

Section 1: Background Information

1. How long have you been a customer of KCB Bank? _____Months or _____Years.
2. What products or services do you use as a consumer? Kindly rate by marking X below:
Savings Accounts { } Current Accounts { } Loans and Overdrafts { } ATM { }
Internet Banking { } Mobile Banking { } Agency Banking { }
Others (Please Specify):_____
3. Select your age group:
Below 18 years { } 19 - 35 years { } 36 – 50 years { } 51 – 65 years { } Above 65 years { }
4. Indicate your level of education:
Class 8 { } Form Four { } College { } Undergraduate { }
Post Graduate { }
5. Indicate your gender:
Male { } Female { }
6. Indicate your Employment status:
Employed { } Unemployed { } Self- Employed { }
7. Do you enjoy banking services with another bank other than KCB bank?:
Yes { } No { }

Section 2: Customer Service Quality

CS1. Rate the customer service quality at KCB bank:

Very Good { } Good { } Average { } Poor { } Very Poor { }

CS2. What are your chances of changing KCB as your bank?

Very High { } High { } Average { } Low { } Very Low { }

Kindly rate by marking (X) the statements below on your level of agreement or disagreement:

	Customer Service Quality	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
CS1	The customer service levels at KCB bank are good and thus I am loyal customer	1	2	3	4	5
CS2	The service levels at KCB are good and therefore I frequent the bank for services	1	2	3	4	5
CS3	I have many complaints about services at KCB and therefore feel I should change bankers	1	2	3	4	5
CS4	KCB attends to my enquiries and I will therefore continue banking with KCB	1	2	3	4	5
CS5	KCB has provided adequate channels for customers to register complaints	1	2	3	4	5
CS6	Products and services provided by KCB satisfy me and therefore I plan to stay at the bank	1	2	3	4	5
CS7	I can access KCB banking services on technologies such as Mobile Phones and therefore I will stay with KCB	1	2	3	4	5
CS8	I feel that my finances are secure at KCB and therefore I cannot change my bank	1	2	3	4	5
CS9	I have a good relationship with KCB and will therefore not change my bank	1	2	3	4	5
CS10	KCB is a reliable partner and therefore I will not change my bank	1	2	3	4	5
CS11	Staff at KCB are friendly and helpful and therefore I will not change my bank	1	2	3	4	5

Section 3: Distribution Channels

DC1. What channels can you access banking services from KCB Bank?

KCB Bank Branches { } Mobile Phones { } Internet Banking { } ATM { } KCB Mtaani Agent: { } Social Media { } Other (Please Specify): _____

DC2. On a scale of 1 – 5, please mark X which distribution channel you frequently use to access KCB banking services:

	Distribution Channel	Every time	Almost every time	Sometimes	Almost Never	Never
DC1	KCB Bank Branches	1	2	3	4	5
DC2	Mobile phones	1	2	3	4	5
DC3	Internet Banking	1	2	3	4	5
DC4	ATM	1	2	3	4	5
DC5	KCB Mtaani Agent	1	2	3	4	5
DC6	Social Media	1	2	3	4	5
DC7	Other (Please specify)	1	2	3	4	5

Kindly rate by marking (X) the statements below on your level of agreement or disagreement:

	Distribution Channels	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
DC1	KCB offers a number of channels through which I can access banking products and services and therefore I am a loyal customer	1	2	3	4	5
DC2	I can use the internet to access banking services at KCB and therefore I will continue banking with KCB	1	2	3	4	5

	Distribution Channels	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
DC3	I can access banking services at KCB through KCB ATMs therefore I plan to stay with KCB	1	2	3	4	5
DC4	I can access banking services from KCB through my phone therefore I will continue banking with the bank	1	2	3	4	5
DC5	ATMs of KCB are easily accessible and therefore I plan to stay with the bank	1	2	3	4	5
DC6	Technologies used to access services from KCB are reliable and therefore I will stay with KCB	1	2	3	4	5
DC7	I am pleased with the technologies used to deliver services at KCB and therefore I am satisfied	1	2	3	4	5
DC8	KCB banking halls are neat and tidy and therefore I regularly visit the branch for my services	1	2	3	4	5
DC9	I am served very fast at KCB and therefore I regularly visit the bank branch	1	2	3	4	5
DC10	Employees at KCB branches are very friendly and therefore I regularly visit the bank	1	2	3	4	5
DC11	Employees of KCB are knowledgeable about the products and services therefore I regularly visit the bank branches	1	2	3	4	5
DC12	KCB Mtaani agents are reliable and therefore I regularly visit the Agents	1	2	3	4	5
DC13	KCB Mtaani agents are friendly and therefore I regularly visit the agents for my banking services	1	2	3	4	5

Section 4: Cost of Banking Services

CO1. Rate the cost charged by KCB to access their services:

Very High { } High { } Average { }
 Low { } Very Low { }

CO2. On average please rate cost you incur for services at a KCB Branch. E.g. transport costs or time costs:

Very High { } High { } Average { }
 Low { } Very Low { }

Kindly rate by marking (X) the statements below on your level of agreement or disagreement:

	Cost of Services	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
CO1	KCB charges are average and therefore I plan to stay with the company	1	2	3	4	5
CO2	The queues at KCB are very long which leads to me wasting a lot of time	1	2	3	4	5
CO3	KCB charges to access services via platforms such mobile phone are too high	1	2	3	4	5
CO4	Bank charges on loans at KCB are high as compared to other banks	1	2	3	4	5
CO5	KCB charges are low when accessing services at KCB Mtaani agents	1	2	3	4	5

	Cost of Services	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
CO6	KCB branches are located far from me and I have to incur a lot of funds to access KCB services	1	2	3	4	5
CO7	KCB charges are high when you access the services at the banks' branches	1	2	3	4	5
CO8	The monthly charges on accounts at KCB are high	1	2	3	4	5

Section 5: Retention

Kindly rate by marking (X) the statements below on your level of agreement or disagreement:

	Retention	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
CR1	I am likely to say positive things about KCB to other people	1	2	3	4	5
CR2	I am likely to recommend KCB to someone who seeks my advise	1	2	3	4	5
CR3	I am likely to encourage friends and others to do business with KCB	1	2	3	4	5
CR4	I am likely to consider KCB as my first choice for future banking transactions	1	2	3	4	5
CR5	I am likely to do more business with the KCB bank in the coming months	1	2	3	4	5

Thank you for your participation.