AN INVESTIGATION OF FACTORS AFFECTING CUSTOMER RETENTION IN BARCLAYS BANK OF KENYA

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DECLARATION

I declare that this research project is my original work and has not been presented for a degree in any other university.

Sign: …………………………… Date: ………………………

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Reg: D61/P/8442/2003

This research project has been submitted for examination with my approval as university supervisor.

SUPERVISOR:

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DEDICATION

This project is dedicated to my parents Mr. and Mrs. Kamau Njane, my brother John Njane, my sisters Catherine Gatumbi, Agnes Njeri, Alice Nyokabi and Esther Karugari for their inspiration, support, encouragement and understanding in my academic journey.

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ABSTRACT

Customer retention has been shown to be primary in firms that practice relationship marketing. Relationship maintenance costs fall as both customer and supplier learn more about each other. In addition, longer-term customers buy more and, if satisfied, may generate positive word-of-mouth promotion for the company. This study was motivated by the need to establish the factors which prevent and affect customer retention in banks in Kenya using a case study of Barclays Bank of Kenya. To achieve this objective, the study used a case study design approach. Data was collected from the customers of the Barclays Bank of Kenya using semi-structured questionnaires and an interview done on the staff of the Barclays bank. The quantitative data collected was checked for completeness, coded and entered into a computer for analysis. The data was analysed using descriptive statistics with the aid of a computer software SPSS. The study found that customer retention is influenced by accuracy of transactions, delivery of services, efficiency of customer services, physical appearance of the bank and the convenience of the branch locations. Further findings indicated that customer retention in banks is also influenced by the corporate image of the banks based on the stability, familiarity and reliability. Competitive advantage of the bank through advertisements, unique and distinctive products and competitive pricing were other factors influencing customer retention. The study recommends management puts strategies so as to satisfy their customers and to retain them and prevent them from switching to other banks. It also recommends that banks put in place a customer retention team to monitor and address issues contributing to customer switching and retention.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Customer retention has been shown to be a primary goal in firms that practice relationship marketing (Coviello et al., 2002). While the precise meaning and measurement of customer retention can vary between industries and firms (Aspinall et al., 2001) there appears to be a general consensus that focusing on customer retention can yield several economic benefits (Reichheld, 1996; Buttle, 2004). As customer tenure lengthens, the volumes purchased grow and customer referrals increase. Simultaneously, relationship maintenance costs fall as both customer and supplier learn more about each other. Because fewer customers churn, customer replacement costs fall. The seller may incur more cost in attracting new customers through discounted offers. Therefore, retained customers may pay higher prices than newly acquired customers because they are less likely to receive discounted offers that are often made to acquire new customers. These conditions combine to increase the present net value that retained customers has to seller. Lindgreen et al. (2000), for example, compute that it can be up to ten times more expensive to win a customer than to retain a customer and the cost of bringing a new customer to the same level of profitability as the lost one is up to 16 times more.

Gummesson, (2002) indicated that in order to retain customers over time professional service providers need to place more efforts on the creation of personal relationships with the clients, as it is a strong bond tying customers to the firm. Creation of customer satisfaction and the creation of switching barriers are the main strategies employed by firms, for retaining customers. Other factors affecting professional

service firms' retention strategies are the firms' ability to convey confidence, to get the customers involved, and to be able to deliver good quality services (Gummesson, 2002).

Recent marketing activity has seen a shift in emphasis among marketers from a traditional transactional approach, to one that seeks a more long-term relationship (Hollensen, 2003). The differentiation, according to Gronroos (1998), is that transactional marketing is supplier-focused, whereas relationship marketing is customer-focused. This has resulted in organizations moving away from merely attracting business to attempting to retain and sustain it for the long-term.

For a supplier, the financial benefits of retaining existing customers as opposed to sourcing new ones are clearly apparent. Nonetheless, customers also benefit from a close relationship in terms of customization through improved knowledge and better understanding of business needs by the supplier (Linton, 2003). Little and Marandi (2003) argue that quality and cost are important factors in supporting long-term relationships. In particular, customer concerns over switching suppliers and the suitability of the product and any associated rectification costs possibly negating potential cost savings is a key factor in supplier retention. Customization of product and knowledge exchange between customer and supplier therefore makes the switching costs seem higher (Gummesson, 2002).

The argument for customer retention is relatively straightforward. It is more economical to keep customers than to acquire new ones. The costs of acquiring customers to replace those who have been lost are high. This is because the expense of acquiring customers is incurred only in the beginning stages of the commercial

relationship (Reichheld and Kenny, 1990). In addition, longer-term customers buy more and, if satisfied, may generate positive word-of-mouth promotion for the company. Additionally, long-term customers also take less of the company's time and are less sensitive to price changes (Healy, 1999). These findings highlight the opportunity for management to acquire referral business, as it is often of superior quality and inexpensive to obtain. Thus, it is believed that reducing customer defections by as little as five percent can double the profits (Healy, 1999).

1.1.1. The concept of Customer Retention

Customer retention is a term which is very popular and widely used at the moment. Below are some definitions of customer retention. An assessment of the product or service quality provided by a business that measures how loyal its customers are (Anderson & Sulivann, 1993). Customer retention is the process when customers continue to buy products and services within a determine time period (Google).Customer Retention is the activity that a selling organization undertakes in order to reduce customer defections (Wikipedia). All these definitions of customer retention point to the need by organizations to maintain their customers. To do this, organizations come up with different strategies e.g assessing the quality of their goods/services.

There are several benefits of customer retention, Firstly; growth is one of the benefits that superior customer retention can offer a company. Increased profits are another. The cost of acquiring customers and putting them on the books generally exceeds by several times the annual cost of serving existing customers. So the longer customers are kept, the more years over which the initial cost of acquisition can be spread.

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Secondly, customer retention reduces defections. Satisfied customers are less likely to defect from a business enterprise than non satisfied customers. This is because their needs are met in one way or another.

Thirdly, customer retention is necessary for competition advantage. Customers will always communicate with each other. A business that is reputable for treating its customers well is more likely to gain new customers and thus have a competitive edge over the others.

There are various marketing strategies undertaken to enhance customer retention in firms. A marketing strategy is a process that can allow an organization to concentrate its resources on the optimal opportunities with the goals of increasing sales and achieving a sustainable competitive advantage. Marketing strategies may differ depending on the unique situation of the individual business. However there are a number of ways of categorizing some generic strategies. A brief description of the most common categorizing schemes is; strategies based on market dominance, strategies based on acquisition of new customers and those based on retention of the existing customers.

The banking industry is highly competitive, with banks not only competing among each other; but also with non-banks and other financial institutions (Hull, 2002). Most bank product developments are easy to duplicate and when banks provide nearly identical services, they can only distinguish themselves on the basis of price and quality. Therefore, customer retention is potentially an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment. The majorities of banks have non-domestic owners, and are not very diversified in terms of the products and services they offer (Hull, 2002). This

suggests that most organizations have reached the maturity phase of the product lifecycle and has become commoditized, since banks offer nearly identical products. This carries the danger of creating a downward spiral of perpetual price discounting: fighting for customer share (Mendzela, 1999).

One strategic focus that banks can implement to remain competitive would be to retain as many customers as possible. The key factors influencing customers' retention in a bank include the range of services, rates, fees and prices charged (Abratt and Russell, 1999). Furthermore, service excellence, meeting client needs, and providing innovative products are essential to succeed in the banking industry. Most private firms claim that creating and maintaining customer relationships are important to them and they are aware of the positive values that relationships provide (Colgate et al., 1996).

1.1.2 Barclays Bank of Kenya

Barclays has operated in Kenya for over 90 years. Financial Strength coupled with extensive local and international resources have positioned Barclays Bank of Kenya as a foremost provider of financial services. Barclays has established an extensive network of over 117 outlets with 231 ATMs spread across the country. The bank's financial performance over the years has built confidence among the 48,000 shareholders, with a reputation of being one of the leading blue chip companies on the Nairobi Stock Exchange. The main sectors of the Kenyan economy are agriculture, manufacturing, tourism and financial services. Tea and Horticulture are the country's leading exports and tourism sector continues to play a key role in contributing towards foreign exchange earnings of the country (Barclays Report, 2010).

Barclays Bank of Kenya has made excellent progress in the implementation of the highly anticipated banking system. This demonstrates the focus as a bank, on delivering cutting-edge customer service based on a robust banking system. The new system incorporates world-class technology, the key competitive advantage is the staff and how well they leverage the capability to serve its customers better and attract new customers using the system. The re-plat forming program is to bring the threshold of a brand-new banking system that will ensure sustainable and profitable growth. The new system is customer-centric, it has a unique straight-through processes multicurrency feature plus the fact that it has a seamless multi-branching functionality will certainly drive home real value to the business and banking customers alike. The staff will love using the system; their jobs will be much easier since the customer will be identified from a central point. The aim of the new system is to accelerate further growth of the business which inevitably will require more staff working smarter and in a better controlled environment that focuses on the customers (Barclays Survey Report, 2010).

1.2 Research Problem

According to Hull (2002), the banking industry is highly competitive, with banks not only competing among each other; but also with non-banks and other financial institutions. Therefore, customer retention is potentially an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment.

Customers' decision to purchase product and services offered in the banking industry are influenced by a number of factors. For instance, Abratt and Russell (1999) cited factors such as range of services available, rates, fees and prices charged as some of

the factors influencing customers' choice of a bank product or service. Besides, factors such as prices, quality of services, ability to satisfy customer needs and product innovation are important in marketing banking products and services. Despite the importance of consumer retention banking industry, very few empirical studies have investigated constructs that could lead to customer retention (Fisher, 2001). Colgate *et al.,* (1996) further stated that most banks claim that creating and maintaining customer relationships are important to them and they are aware of the positive values that relationships provide.

Local studies done on customer retention in Kenya have not focused on factors affecting customer retention in commercial banks. Siboe (2006) did a study on customer retention strategies used by internet service providers in Kenya while Jerono (2008) conducted a study on relationship marketing practices and their impact on customer retention in the commercial banks in Kenya. This study therefore sought to fill the knowledge gap by establishing factors affecting customer retention at Barclays Bank of Kenya. The study answered the fallowing research questions: Which strategies are used to retain customers at Barclays Bank of Kenya? Which factors influence customer retention at Barclays Bank of Kenya? Through which means can effectiveness of customer retention strategies at Barclays Bank of Kenya be enhanced?

1.3 Research Objectives

The study was guided by the following specific objective:

i. To determine strategies used to retain customers at Barclays Bank of Kenya

ii. To determine factors that influence customer retention at Barclays Bank of Kenya

1.4 Value of the study

This study will be of value to the managers at the Barclays Bank of Kenya will gain additional knowledge in relation to the issues that need to be addressed to retain customers. This will enable them overcome the competition posed by other banks.

Commercial banks will benefit from this study as they will be adequately informed on what strategies to be adopted by the bank to achieve good customer retention strategies. The findings will, therefore, be of great importance in strategic planning on customer retention.

Academicians and researchers will also benefit because the final report of this study on customer retention will act as future reference materials, scholars and future researchers in this area will use this study as a reference in their studies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents review of literature related to customer retention. The chapter is structured into the customer service theory, customer retention concept, importance of customer retention, customer retention in recent studies, and the factors affecting customer retention.

2.2 Customer Service Theory

The theory of customer service and satisfaction is about retaining customers. Loyalty remains the key element. It is by nature an intensely practical theory. Without a firm grasp on the basic principles of customer service, a firm cannot survive. Few want to do business with a firm that cares little about customers, their comfort and concerns. If a firm owner or manager wants to be successful, that person needs to be very involved with meeting customer needs, or the customer will go elsewhere. Therefore, profit seeking firms, regardless of their true motivation, are forced by the nature of the marketplace to treat customers with respect and seek their loyalty and return business (Anderson, 2000).

There are five main features of customer service that leads to satisfaction. The firm must be reliable in its services, such as deliveries. It must be highly responsive to customer needs and, therefore, must strive to become flexible. The customer must be assured that the firm is consistent in meeting needs and keeping its side of the bargain. Firm staff must be empathetic with clients and customers, creating real relationships and friendships to keep clients. Lastly, the "tangible" aspects of the firm must be in order. This includes the basic appearance and atmosphere of the physical plant. It

needs to stress brightness, welcoming and warmth. It should be a comfortable place to do business (Anderson, 2000).

Customer service leads to customer loyalty. This is done through what customer relations expert Anderson E calls the "equation of fantastic service." The first step is to greet the customer, making him feel welcome and at home. Then the client's specific needs must be determined. Third, those needs must be met efficiently. The purpose here is to create a friendly and personal relationship that provides positive associations between the customer and the establishment. Those met needs need to be checked and rechecked to make sure nothing was left out. Finally, fantastic service "leaves the door open," making sure the client has an incentive to return. The benefit to the customer is a pleasant and efficient experience, and the firm has just recruited a loyal customer.

The process of expectation confirmation is another key to customer loyalty. Customers who are loyal to a company develop a certain idea of quality and service that they expect to be confirmed. As long as their expectations continue to be confirmed, they will be loyal. Companies lose long-term customers when they cease to meet the expectations that they have built up over time. As a result, reliability and consistency are necessary to maintain loyalty. Trust is also a consideration similar to expectation confirmation, but with more of an ethical dimension. Customers will be more loyal to companies that they feel match their own ethical concerns. This involves not only how the company deals with their customers, but their employees as well. By feeling that they can trust a company, in the sense that it has reliable ethical values, customers will have an additional reason to build a long-term relationship (Anderson, E, 2000).

2.3 Theories on Customer Retention

Theoretical positions to customer retention management emerged from three main theories: service approach, industrial marketing and general management approach.

2.3.1 Service Approach

From the service marketing approach, the way to retain customers is to improve customer service and satisfaction (Zeithaml and Bitner, 1996). In a related study Ennew and Binks (1996) examined the links between customer retention /defection and service quality in the context of relationships between banks and their small business customers in the UK. Their findings supported the hypothesis that retention is influenced by service quality, in terms of both functional and technical, and customers relationships.

2.3.2 Industrial Marketing Approach

According to the industrial approach, customers are retained by creating multi-level bonds comprising of financial, social and structural bonds. According to Turnbull and Wilson (1989) social bonds are positive interpersonal relationships between the buyer and the seller. Although they did not provide an explicit definition of structural bonds they implied, through their illustrations that structural bonds refer to relationship that are built upon joint investments which cannot be retrieved when the relationship ends. This may be due to the complexity of the relationship and the cost of changing to another supplier. In general structural bonds have created value to the customers by saving the costs of retraining or making a new investment with a new supplier.

2.3.3 Management Approach

This theory centers on the management behaviour and how the behaviour can influence customer retention. DeSouza (1992) advocates retention measures and implementation of measures which prevent customers defecting by learning from former customer, analysing complaints, service data and identifying and raising barriers to customers switching. Also creation of a balance of the first time buyers, repeat buyers, switched away and return buyers, last time buyers. Reorganizing the firm greatly influences customer retention (Rosenberg and Czepeil (1984). Reichheld (1996) advocated the pursuit of a three-pronged approach of keeping investors, employees, and customers and the adjustment of the firm's mission, which should be about creating value for its three above mentioned constituencies. His idea rested on the notion that disloyal employees are not likely able to build an inventory of loyal customers, and disloyal investors do not support long term relationship programmes.

2.4 Customer Retention Concept

Berry and Parasuraman, (1991), identified strategies for retaining customers in three ways: conceptual strategies based on extant theories, best practices strategies as reported by specialists and pragmatic strategies as observed in companies. In terms of extant theories, they considered lessons from services marketing industrial marketing, and business-to-business marketing perspectives. From the service marketing perspective, customer retention has been conceptualized as a consequence of customer-perceived service quality and customer satisfaction (Zeithaml and Bitner, 1996). A provider of services, based on such a cause-and-effect model, could therefore focus on progressively closing the gaps between customer expectations and

experiences of service quality. Based on a survey of service providers, Payne and Frow (1999) offered a four-step framework: the market structure, segment the customer base and determine segment value, identify segments' service needs and implement a segmented service strategy. They claimed that the framework enables firms to allocate appropriate budgets to various segments of customers according to their projected lifetime stability.

According to Turnbull and Wilson (1989), the industrial marketing perspective, core products are often of little significance to potential buyers. Augmented products such as technical advice and long-term costs of maintenance and operation tend to be more important than functional features and selling price. They argued that firms should protect their stable customer relationships through not only social but also structural bonds. Social bonds, according to Turnbull and Wilson (1989), refer to positive interpersonal relationships between employees in the buyer and seller organizations. Although they did not provide an explicit detonation of structural bonds, they implied through their illustrations that structural bonds are built upon joint investments which cannot be retrieved when the relationship ends. Structural bonds therefore help create value for customers by saving the costs of retraining or making a new investment with a new supplier.

Although not all customers prefer long-term relationships there are those who prefer stable long-term relationships, inherently spend more, pay promptly and require less service. According to Reichheld (1996) stated that long-serving employees generate economic benefits such as recruiting the best customers, retaining customers by producing better products and value and they are sources of customer referrals. Central to his approach was the need for firms to search continuously and consistently

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for initiatives that offer a better value proposition than their competitors. Potential strategies for managing customer retention have also emerged from observations of management practice. DeSouza (1992) offered strategies that measure retention in terms of both crude and weighted rates. The strategies include interviewing former customers, analyzing complaint and service data and identifying switching behavior.

There are several definitions of customer retention as, which are as below.

An assessment of the product or service quality provided by a business that measures how loyal its customers are (Anderson & Sulivann, 1993).

Customer retention is the process when customers continue to buy products and services within a determine time period (Google).

Customer Retention is the activity that a selling organization undertakes in order to reduce customer defections (Wikipedia).

To conclude the various definitions of customer retention point to the need by organizations to maintain their customers. To do this, organizations come up with different strategies e.g assessing the quality of their goods/services.

2.5 Importance of Customer Retention

Customer retention is not only a cost effective and profitable strategy, but in today's business world it's necessary. This is especially true when you remember that 80% of your sales come from 20% of your customer and clients. Good customer retention is vital to any organization because a slight reduction in the customer defection rate has a disproportionately positive effect on profitability. Companies with high retention also grow faster. However, customers can only be retained if they are loyal and motivated to resist competition.

For customer satisfaction to be high, promises and expectations must be met. This involves the organization's ability to understand customer expectations and to do it right the first. The ability to deal with problems as they arise is a key ingredient to success. Also, the organization needs to consider complaints as a gift. The impact of losing customers is enormous and many businesses don't really understand how important it is. It costs so much more to acquire a new customer than to retain and sell to an existing one. A small increase in ones customer retention could result in dramatic increase of your profits.

Today, many businesses tend to alienate their customers by making it difficult to work with them or by providing poor customer service. The business of retaining customers is a difficult one .Its clear that customer retention is not something that happens by itself. It requires work and even money. The target of customer retention is to build and maintain a long term relationship with customers. Both parties – the company and the customers – benefit from each other.

2.6 Customer Retention Researches in Recent Years

A number of key organizational strands of customer retention have been conjectured from the literature, which form the theoretical basis for this investigation and are argued as follows. Managers are responsible for establishing priorities and making strategic choices (Cravens et al., 1996), making it clear that the organization's customer base is a key strategic asset (Schmittlein, 1995). They should provide clear direction so that the causes of customer defections are uncovered and addressed (Reichheld, 1996). Service quality, IT and a long-term perspective all require significant commitment and clear signals from senior managers with appropriate

reinforcement. Customer retention requires clear direction and this is the first strand of customer retention.

The focus in the literature is on retaining profitable or potentially profitable customers and recognizing, equally, that there are customers who should not be served (Reichheld and Sasser, 1990). One of the bases for segmentation should be existing and potential customer value (Payne and Frow, 1999). Relational exchanges can be most effectively maintained through relationship marketing, based around dialogues with individual customers, hence selection becomes third strand of customer retention.

There has been very little specific research into the development and content of customer retention plans, per se (DeSouza, 1992). However, there have been some reports indicative of the relative weight attached to customer retention budgets. According to Weinstein (2002) most companies spend a majority of their time, energy and resources chasing new business. He suggests that eighty percent or more of marketing budgets are often earmarked for getting new business (Weinstein, 2002, p. 260). This is in line with Payne and Frow's (1999) finding that only 23 per cent of marketing budgets in organizations is spent on customer retention. Aspinall et al. (2001), in contrast, found that 54 per cent of companies reported that customer retention was more important than customer acquisition.

2.7 Factors Affecting Customer Retention

Several factors affect customer retention, for example: complaints-handling process, customer service, service recovery, service quality, the interpersonal relationship, customer satisfaction, product mix and perceived price fairness. These factors are discussed in the following subsections.

There are indications that a well-executed complaints-handling process is of strategic relevance because it can have a positive effect on customer retention (Stauss and Seidel, 2004). Indeed, customers who complain and are well recovered can be more satisfied and less likely to switch than customers who had no cause for complaint at all (Nyer, 2000). Complainants who enjoy high standards of complaints handling experience the service quality attributes of empathy and responsiveness, which are not routinely on display when services are delivered, or products function, right first time (Buttle, 2004). Despite the strategic relevance of complaints handling, it is a process which it appears to be accorded little importance in many companies (Stauss and Schoeler, 2004).

Customer service is one of the organizational processes which companies perform in considering the growing competition for attracting entrepreneurial opportunities for increasing profitability and better access to the market and increasing the customer satisfaction level. According to Gummesson (2002), customer service has importance because it ends in increasing product quality, gaining competitive advantage, gaining profitable opportunities, and as a result increasing sales and income. The domain of the activities related to customer service is vast.

Presenting informational services is in the line of informing customers about new products, information regarding service centers. Presenting communicational services is directly related to customer satisfaction. Customers after purchasing products from the company may have doubts in their decision making; the only way to manage this uncertainty is to establish a long term relationship with customers (Hollensen, 2003). One of the strategies of presenting better customer services is to provide proper trainings to personnel and customers. Presenting suitable training services create

possibility for increasing the level of customer service and hence the customer satisfaction. Using trained staff also, increases the accountability of the company. Discovery services are also important in retaining customers. Discovery services refer to the services that company do for detecting defects in the product and rectifying them without causing any loss for the customers (Kruse *et al,* 2010.

Detecting defects in the product and rectifying them ensures that customers' satisfaction with the quality of services they receive. In the case of banking industry discovery services can enhance efficiency of electronic banking or instance use of visa cards, mobile banking and automated teller machines (ATMs). Discovery services have also been used for discovering new needs and creating new entrepreneurial opportunities. For implementing this type of services, company tests its products in some markets and with utilizing benchmarking mechanisms satisfaction of the product will be analyzed (Kruse et al, 2010).

The service recovery means the ability of the service provider to solve the problem such as the customer dissatisfaction and the service failure (Gronoss, 1988). This research adopts the definition of the service recovery as described. The active effort of the company to solve the problem helps customer have credit on the service provider. And appropriate effort for the service recovery can protect customers from switching the service provider (Colgate & Lang, 2001). The service recovery at the service encounter is a foundation to develop the customer relationship into a long-term friendship. Therefore the service recovery can be a component for the switching barrier.

Service recovery can be regarded as a passive strategy for the improvement of customer satisfaction. Service recovery refers to the actions taken by a firm in response to a service failure (Zeithaml and Bitner, 2003). Service failure often occurs when the customer's perceived service quality falls below customer expectations. For example, delivery and Web site design problems are two major types of service failure in online retailing (Holloway and Beatty, 2003). Such failures may cause significant costs to the firm, such as lost customers and negative word of mouth (Bitner, Brown, and Meuter, 2000).

Literature has addressed the importance of service recovery. According to Hart, Heskett, and Sasser (1990), firms learn from experiences of service recovery when they may not be able to prevent service failure. Berry and Parasuraman (1992) believed that firms should not regard service failure as a problem but as an opportunity to create satisfied customers. Hence, recovery strategies have a dramatic impact on a firm's revenue and profitability (Tax and Brown, 1998). Service recovery literature has shown that resolving customer problems has a strong impact on customer satisfaction and loyalty (Miller, Craighead, and Karwan, 2000; Smith and Bolton, 2002). Swanson and Kelley (2001) also found that customer behavioral intentions are more favorable when customers believe that firms consistently implement service recovery when failures occur. Furthermore, Robbins and Miller (2004) found that well-handled service recovery strongly affects customer loyalty.

Bloemer and Ruyter (1998) suggested that store loyalty resulted from a consumer committed to the store through an explicit and extensive decision-making process. Customer loyalty is frequently operated as a conscious evaluation of the price/quality ratio or the willingness to pay a premium price, or alternatively price indifference

(Raju, Srinivasan, and Lal, 1990; Zeithaml, Berry, and Parasuraman, 1996). Supphellen and Nysveen (2001) suggested that corporate brand loyalty affected online shoppers' intentions to revisit the Web site. Cronin and Taylor (1992) examined the causal relationships among service quality, customer satisfaction, and purchase intention. Each variable was measured by one item. There were 660 usable questionnaires randomly collected from customers of four types of businesses in the southeastern United States: banking, pest control, dry cleaning, and fast food. The results of correlation analysis have suggested that service quality was an antecedent of consumer satisfaction, service quality had less effect on purchase intentions than did consumer satisfaction, and consumer satisfaction had a significant effect on purchase intentions.

Dabholkar, et al (2000) also found that customer satisfaction strongly mediated the effect of service quality on behavioral intentions. The data used in their study were systematically randomly collected from 397 churches. A test of discriminated validity revealed that the construct of service quality was different from the construct of customer satisfaction. The result of regression analysis in structural equations modeling supported their proposition that customer satisfaction had a stronger effect on behavioral intentions than service quality did (Dabholkar et al., 2000). Service quality literature indicated that perceptions of high service quality and high service satisfaction resulted in a very high level of purchase intentions (Boulding *et al.,* 1993; Coner & Gungor 2002) claimed that customer loyalty was affected by product quality, service quality, and retailer image. They also suggested quality of product and service is directly related to customer satisfaction, and lead to the loyalty of the customer (Coner and Gungor, 2002). Customer satisfaction literature showed that the

relationship between customer satisfaction and customer loyalty depended on the type of satisfaction. The positive impact of manifest satisfaction on customer loyalty was stronger than that of latent satisfaction on customer loyalty (Bloemer and Kasper, 1995; Bloemer and Ruyter, 1998).

Based on empirical findings in service quality and satisfaction literature, service quality is one of the antecedents of satisfaction (Anderson and Sullivan, 1993; Cronin and Taylor, 1992, 1994; Reidenbach and Sandifer-Smallwood, 1990; Spreng and Mackoy, 1996; Woodside, Frey, and Daly, 1989), and loyalty is one of the consequences of satisfaction (Coner and Gungor, 2002; Cronin and Taylor, 1992, 1994; Dabholkar, Shepherd, and Thorpe, 2000).

The long term interpersonal relationship between the company and customers offers a lot of benefits to the customers: social benefits such as fellowship and personal recognition, psychological benefits such as reducing anxiety and credit, economic benefits such as discount and time-saving, and finally customization benefits such as customer management and etc (Berry, 1995).

The interpersonal relationship between the company and the customers can be an important factor as a switching barrier. The continuous interpersonal relationship becomes a relationship-specific asset which acquires customer to pay cost to be out of the relationship and therefore protects customer from being apart from the relationship with the company (Berry, 1995).

There are many studies on the relationship between the customer satisfaction and the customer retention. Precedent studies say that the customer satisfaction is the factor affecting the customer retention in different business organizations (Jones *et al.,* 2000,

Oliva *et al.,* 1996). The customer satisfaction has positive effect on the customer retention.

Customer satisfaction is a key and valued outcome of good marketing practice. According to Drucker (1954), the principle purpose of a business is to create satisfied customers. Increasing customer satisfaction has been found to lead to higher future profitability (Anderson, Fornell, and Lehmann 1994), lower costs related to defective goods and services (Anderson, Fornell, and Rust 1997), increased buyer willingness to pay price premiums, provide referrals, and use more of the product (Reichheld 1996; Anderson and Mittal, 2000), and higher levels of customer retention and loyalty (Fornell 1992; Anderson and Sullivan 1993; Bolton 1998). Increasing loyalty, in turn, has been found to lead to increases in future revenue (Fornell 1992; Anderson, Fornell, and Lehmann 1994) and reductions in the cost of future transactions (Reichheld 1996; Srivastava, Shervani, and Fahey 1998). All of this empirical evidence suggests that customer satisfaction is valuable from both a customer goodwill perspective and an organization's financial perspective.

A firm's future profitability depends on satisfying customers in the present, retained customers should be viewed as revenue producing assets for the firm (Anderson and Sullivan 1993; Reichheld 1996; Anderson and Mittal 2000). Empirical studies have found evidence that improved customer satisfaction need not entail higher costs, in fact, improved customer satisfaction may lower costs due to a reduction in defective goods, product re-work, etc. (Fornell 1992; Anderson, Fornell, and Rust 1997). However, the key to building long-term customer satisfaction and retention and reaping the benefits these efforts can offer is to focus on the development of high quality products and services. Customer satisfaction and retention that are bought

through price promotions, rebates, switching barriers, and other such means are unlikely to have the same long-run impact on profitability as when such attitudes and behaviors are won through superior products and services (Anderson and Mittal 2000). Thus, squeezing additional reliability out of a manufacturing or service delivery process may not increase perceived quality and customer satisfaction as much as tailoring goods and services to meet customer needs (Fornell, Johnson, Anderson, Cha, and Evuoeritt 1996).

Financial product marketers need to manage their product portfolio in response to the changing environment and consumer needs, in addition to managing customer relationships effectively for achieving long-term profitability (Bell et al., 2002). The concept of a product can be understood in terms of the following four terms – actual product, expected product, augmented product, and potential product. For a financial product, the product strategy is greatly influenced by customers, competitors, technology, government and legislation. Depending on these factors, the product mix strategy could be product mix expansion, product mix contraction, and product modification (Cannon and Cannon, 2005).

Branding in financial services is done more at the corporate level than at the product level. Branding should start with a clear strategy for targeting and positioning. The brand image should be consistent with the marketing strategy (Teach, Richard 1990). Advertising can be successful in building the brand only if the financial product caters to the requirements of the consumer and the entire service experience is consistent with the brand image that is communicated.

To implement one-to-one marketing, the marketer needs to identify the target customers, differentiate them into groups, interact with each customer group, and provide customized products and solutions in a cost-effective manner (Cannon and Cannon, 2005). This can be done using the technique of mass customization. Product recommendation sites give the power of decision-making back to the consumer; peers rely on them, marketers can learn about what products are faring well in the market and which ones aren't, and the customer feels both connected and engaged with the company they are buying from. The critical elements of feedback and suggestions play a leading role in how e-retailers make website construction decisions. This is a simple way to increase sales, and it's become a key reason why shoppers continue to make their purchases from just one site, even when the products are offered from various retailers (Cannon and Cannon, 2005).

From the consumer's perspective, the monetary cost of something is what is given up or sacrificed to obtain a product (Zeithaml, 1988). Thus, in studies on related topics, price has often been conceptualized and defined as a sacrifice (Anderson, Fornell and Lehmann, 1994; Sweeney, Soutar, and Johnson, 1999). There are three components to the concept of price: objective price, perceived non-monetary price, and sacrifice (Zeithaml, 1988). The objective monetary price (simply put, the amount of money paid for product) is not equivalent to the perceived price (that is, the price as understood and recorded in the mind of consumer) since consumers do not always know or remember the actual price paid for a product. Instead, they encode the price in a way that it is meaningful to them (Zeithaml, 1988).

As to the relationship between price and satisfaction, research has shown that price is one of the determinants of customer satisfaction (Anderson, Fornell, and Lehmann,

1994; Zeithaml and Bitner, 2000). When customers were asked about the value of services rendered, they consistently considered the price charged for the service (Anderson, Fornell, and Lehmann, 1994). In those cases in which consumers did not consider price in forming their judgments about the quality of service, it was generally because they lacked a reference price (Zeithaml and Bitner 2000). Still, though, this group ranked price as an important factor when it came to their overall satisfaction.

The theoretical formation of price perception in services remains largely unexplored (Varki and Colgate, 2001). This study suggests that the perception of price fairness plays an important role in any exchange transaction. The feeling of fairness depends on the gain-loss ratio felt by both partners in the exchange. From the consumer's perspective, the gain is the product to be received, whereas the loss is the money to be paid. When a consumer pays a higher price than others do, or when a consumer receives a lesser product than anticipated (either in terms of quantity or quality), perceived negative price inequity occurs. On the other hand, perceived positive price inequity may result from either receiving a larger or better product than others, who paid the same price, or paying a lower price but receiving the same product. Price fairness should have an influence on customer satisfaction (Parasuraman, Zeithaml, and Berry, 1994) as well as on behavioral intentions (Varki and Colgate, 2001). This study, then, proposes that the perceived fairness of price should directly affect customer loyalty, and should also affect it indirectly via customer satisfaction.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents research methodology that was adopted in carrying out the study. It covers the following aspects: research design, population of the study, sample and sampling method, instruments for collecting data, procedure for collecting, analyzing and presenting data.

3.2 Research Design

This research adopted a case study design. A case study explains relationships that exist in reality (Yin, 1984). The study opted for case study design because it allows the researcher to capture reality in greater detail. A case study allows the study of a phenomenon in its natural setting. Besides, a case study allows for data collection from one or a few entities (people, groups or organizations). A case study also is suitable when the focus is on a recent event (Yin, 1984). In this study, the focus was on factors affecting customer retention in commercial banks through a case study of Barclays Bank of Kenya.

3.3 Data Collection

The instrument used for data collection from customers was a questionnaire. Questionnaires were designed in a structured manner in which it captured all the variables under study. There were both open and closed ended questions which allowed various responses by the respondents. The questionnaire contained both quantitative data and qualitative data for wider explanations of the variables and good understanding of the relationship between the variables. The questionnaire targeted the bank customers (four and two from Nairobi and central regions respectively)

while the data from marketing manager, customer relations manager, head of customer service, head of customer planning, branch manager (two from every branch in both Nairobi and Central Region) at Barclays Bank   were collected through an interview guide.

3.4 Data Analysis

The quantitative data was analysed through coding and entry into Statistical Package for Social Sciences (SPSS). SPSS generated descriptive statistics such as frequencies, percentages, mean and standard deviation. The qualitative data was analyzed by means of content analysis. Content analysis is a methodology in the social sciences for studying the content of communication. According to Holsti (1969), content analysis is used to make inferences about the antecedents of a communication, to describe and make inferences about characteristics of a communication and to make inferences about the effects of a communication. Reliability in content analysis was ensured by analyzing the amount of agreement or correspondence among the key informants.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This study was motivated by the need to establish the factors affecting customer retention in commercial banks through a case of Barclays bank of Kenya. The objective of the study was achieved by conducting a case study of Barclays bank of Kenya. The data was collected using semi-structured questionnaire. The questionnaires were administered using drop and pick method. The response on the questionnaires was as shown in table 4.1.

Table 4. 1 Response Rate

Number of Questionnaires	Frequency	Percentage
Filled questionnaires	16	67%
Unfilled questionnaires	7	33%
Total	23	100

Source: (Research data, 2012)

The total number of questionnaires distributed was 23. Out of the number, 16 (67%) questionnaires were filled by the respondents a total of 7 (33%) were not attended to by the respondents representing a response rate of 16 (67%). According to Mugenda & Mugenda (2003) a response rate of 50% is sufficient for analysis, 60% is good and 70% is excellent. Thus this response rate was considered appropriate for the study.

4.2 Demographic Information

The respondents in this study were the customers of Barclays Bank. They provided information on their gender, age bracket, and work experience.

4.2.1 Gender

The study requested the respondents to indicate their gender. The findings on the gender are shown in table 4.2.

Table 4. 2 Gender

Gender	Frequency	Percentage
Male	4	25.0
Female	10	62.5
Total	14	87.5
Unfilled	2	12.5
Total	16	100.0

Source: (Research data, 2012)

Table 4.2 shows the gender of the respondents of this study. From the figure, 10 women and 4 men responded to the questionnaires representing (10 female, 71%) women. The percentage of men in the study was lower (4 men, 29%) than that of women indicating that there were more women than men customers who participated in the study.

4.2.2 Age Bracket

The respondents were requested to provide information about their age bracket. The results are shown in table 4.3.

Table 4. 3 Age Bracket

Age Bracket	Frequency	Percentage
18-30 yrs	6	37.5
31-40 yrs	7	43.8
41-50 yrs	3	18.8
Total	16	100.0

Source: (Research data, 2012)

The findings shown in the table shows that most of the respondents 43.8% (7) were of the age bracket 31-40 years. A sizeable number 37.5% (6) were between 18-30 years while 3 (18.8%) were aged between 41-50 years. The study deduces that majority of the Barclay customers are productive and youths aged between 31-40 years.

4.2.3 Work Experience

The respondents provided information about their experience in banking sector. The findings are provided in table 4.4.

Table 4. 4 Work Experience

Years of Experience	Frequency	Percentage
1-5 yrs	1	6.3
5-10 yrs	12	75.0
Above 10 yrs	2	12.5
Total	15	93.8
Unfilled	1	6.3
Total	16	100.0

Source: (Research data, 2012)

From the table, majority (12) of the respondents have been banking their money and working with banks for a period between 5-10 years (80%). Some 3 (13.3%) confessed having worked with banks for more than 10 years. These findings imply that the respondents are knowledgeable and well versed with the banking activities.

4.3 Factors Affecting Customer Retention

The study collected data on the factors which affect customer retention in banks. The factors are discussed under the following headings.

4.3.1 Customer Satisfaction and Retention

The study collected data on the impact of customer satisfaction on customer retention. The findings are provided in table 4.5.

Table 4. 5 : Customer Satisfaction

Indicators of Satisfaction	Mean	Std. Dev
Accuracy of banking records	3.3125	1.44770
Accuracy of transactions	3.8750	.88506
Access to electronic transactions	3.3750	1.08781
The staff who deliver the service	3.8750	1.20416
Efficiency of customer service	3.5625	1.15289
The physical appearance of the branch	4.0000	1.15470
Convenience of branch location	4.1875	1.16726
The banks effort to inform customers about new products and services	3.3750	1.14746
Charges for services offered by the bank	2.6875	1.01448

Source: (Research data, 2012)

Table 4.5 shows the findings on the impact of customer satisfaction on customer retention. The responses were collected using likert scale of 5 units. According to the scale 1 stand for "Strongly Disagree", 2 for "Disagree", 3 for neither "Neither Agree nor Disagree, 4 for "Agree" and 5 for "Strongly Agree" The responses were analysed using descriptive statistics i.e. mean and standard deviation

According to the scale, those variables with a mean close to 4.0 were agreed by the respondents, the respondents were neutral to those variables with a mean close to 3.0. The respondents disagreed with those variables with a mean close to 2.0. Mean while standard deviation was used to indicate the level of dispersion of the responses.

From the findings, customers are satisfied with the accuracy of transactions (M=3.87), the staff of Barclays who deliver the services (M=3.87), efficiency of customer service (M=3.56). The customers also are satisfied with the physical appearance of the branches and convenient branch locations (M=4.187). However, the study noted that customers were dissatisfied with the charges for services offered by the bank (M=2.6875).

4.3.2 Customer Perception on Value

The study collected data on the customer's perception on value. The findings are presented in table 4.6.

Table 4. 6: Customer Perception on Value

Measures of Value	Mean	Std. Dev
Efficient service	3.6250	.88506
Offers latest electronic products	2.8750	1.31022
Listens and is sensitive to customers needs	3.2500	1.00000
Convenient branch location	3.8750	1.02470
Flexible banking policy	2.9375	1.48183
Many branch locations	4.1875	.91059
Fair method of setting fees	3.0625	.99791
Extended banking hours	4.4375	.51235

Source: (Research data, 2012)

Table 4.6 shows the findings on the customer perception on value. The responses were collected using likert scale of 5 units. According to the scale 1 stand for "Strongly Disagree", 2 for "Disagree", 3 for "Neither Agree nor Disagree, 4 for "Agree" and 5 for "Strongly Agree". The responses were analysed using descriptive statistics i.e. mean and standard deviation.

According to the scale, those variables with a mean close to 4.0 were agreed by the respondents, the respondents were neutral to those variables with a mean close to 3.0. The respondents disagreed with those variables with a mean close to 2.0. Mean while standard deviation was used to indicate the level of dispersion of the responses.

From the table, the respondents cited that they valued their banks because of efficient services (M=3.63), convenience of branch locations (M=3.875), many branch

locations (4.18) and extended banking hours (M=4.44). However, the study noted that the customers did not value that their bank offered latest electronic products (2.87) or flexibility of banking policies (M=2.93).

4.3.3 Perceived Corporate Image

The customers provided information on their perceptions of their corporate image. The findings are shown in table 4.7.

Table 4. 7: Perceived Corporate Image

Measures of Image	Mean	Std. Dev
Widely known	4.8125	.40311
Stable	4.6250	.61914
Reliable	4.3750	.61914
Trustworthy	4.4375	.72744
Involved in the community	4.0625	.92871
Well-liked	3.1875	1.37689
Distinctive/Unique compared to others	3.4375	1.26326

Source: (Research data, 2012)

Table 4.7 shows the findings on the perception of the customers on the image of their bank. The responses were collected using likert scale of 5 units. According to the scale 1 stand for "Strongly Disagree", 2 for "Disagree", 3 for "Neither Agree nor Disagree, 4 for "Agree" and 5 for "Strongly Agree". The responses were analysed using descriptive statistics i.e. mean and standard deviation.

According to the scale, those variables with a mean close to 4.0 were agreed by the respondents, the respondents were neutral to those variables with a mean close to 3.0.

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The respondents disagreed with those variables with a mean close to 2.0. while standard deviation was used to indicate the level of dispersion of the responses.

From the findings, the customers perceived their banks as being widely known (M=4.81), stable (M=4.62) and reliable (4.37). Further, the study noted that the customers perceived their bank as a bank which could be trusted (M=4.43) and a bank which could be involved in communal affairs (M=4.06). However, the study established that the respondents were neutral on whether their bank was liked (M=3.18) and whether it was unique (M=3.43).

4.3.4 Perceived Competitive Advantage

The respondents provided information on the perception of the customers on the competitive advantage of their bank. The results are tabulated in table 4.8.

Table 4. 8 Perceived Competitive Advantage

Indicators of Competitive Advantage	Mean	Std. Dev
Has excellent service quality	3.4375	.96393
Uses latest technology	3.0625	1.34009
Has memorable advertisements	3.7500	1.18322
Offers unique and distinctive products	3.5625	1.15289
Has competitive pricing compared to others	3.6250	1.20416

Source: (Research data, 2012)

Table 4.8 shows the findings on the perception of the customers on the competitive advantage. The responses were collected using likert scale of 5 units. According to the scale 1 stand for "Strongly Disagree", 2 for "Disagree", 3 for "Neither Agree nor

Disagree, 4 for "Agree" and 5 for "Strongly Agree". The responses were analysed using descriptive statistics i.e. mean and standard deviation.

According to the scale, those variables with a mean close to 4.0 were agreed by the respondents, the respondents were neutral to those variables with a mean close to 3.0. The respondents disagreed with those variables with a mean close to 2.0. while standard deviation was used to indicate the level of dispersion of the responses.

From the findings shown in table 4.8, the customers are retained in their banks since the banks have competitive advantages. The respondents cited that their banks had competitive advantage through memorable advertisements (M=3.75), offering unique and distinctive products (M=3.56) and their bank offered competitive pricing compared to others (3.62).

4.4 Factors Preventing Customers from Switching To another Bank

The study collected data on the factors which prevent customers from switching to other banks. The findings are provided in the following sections.

4.4.1 Nature of the Bank

The respondents provided information on how the nature of their bank prevented them from switching to other banks. The findings are provided in table 4.9.

Table 4. 9: Nature of the Bank

Attributes on Nature of the Bank	Mean	Std. Dev
My present bank is able to provide goods and services	3.6250	.88506
I see little advantage in switching to on other bank	3.4375	1.03078
I have good relationship with my bank	3.8750	.88506
It is not easy to switch from one bank to another	2.4375	1.45917
My bank offers a wide variety of products	3.5625	1.03078
I receive incentive from my bank	2.0000	.89443

Source: (Research data, 2012)

Table 4.9 shows findings on the aspects of their bank which prevent customers from switching to other banks. The responses were collected using likert scale of 5 units. According to the scale 1 stand for "Strongly Disagree", 2 for "Disagree", 3 for neither "Neither Agree nor Disagree, 4 for "Agree" and 5 for "Strongly Agree" The responses were analysed using descriptive statistics i.e. mean and standard deviation.

According to the scale, those variables with a mean close to 4.0 were agreed by the respondents, the respondents were neutral to those variables with a mean close to 3.0. The respondents disagreed with those variables with a mean close to 2.0. Mean while standard deviation was used to indicate the level of dispersion of the responses.

From the findings, the customers are retained in their bank because their banks are able to provide goods and services (M=3.62). Other factors which prevent customers

from switching to other banks include the good relationships the customers have with their bank (M=3.87) and the fact that their banks offer wide variety of products.

4.4.2 Behavioural Intentions

The respondents gave information on the behavioural aspects that prevent them from switching to other banks. The findings are provided in table 4.10.

Table 4.10: Behavioural Intentions

Indicators	Mean	Std. Dev
It is able to meet consumers changing needs	3.6250	1.14746
Prices of services are acceptable	3.5000	1.09545
It has convenient branch location	4.0625	.92871
It offers a variety of products	3.8750	.95743
It has a reputation of superior service quality	3.5625	1.26326
It has a favorable image	4.3125	.70415

Source: (Research data, 2012)

Table 4.10 shows the behavioural intentions that prevent customers from switching to other banks. The responses were collected using likert scale of 5 units. According to the scale 1 stand for "Strongly Disagree", 2 for "Disagree", 3 for "Neither Agree nor Disagree, 4 for "Agree" and 5 for "Strongly Agree". The responses were analysed using descriptive statistics i.e. mean and standard deviation.

According to the scale, those variables with a mean close to 4.0 were agreed by the respondents, the respondents were neutral to those variables with a mean close to 3.0. The respondents disagreed with those variables with a mean close to 2.0. Mean while standard deviation was used to indicate the level of dispersion of the responses.

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From the findings, the customers do not switch their banks because of various reasons. These include ability to meet consumers changing needs (M=3.62), the acceptability of the prices of the banks services (M=3.5), convenience of the bank branches (M=4.06) and ability to offer variety of products (M=3.87). The study also established other aspects such as reputation of superior service quality (M=3.56) and favourable image of the bank (M=4.31).

4.4.3 Customer Loyalty

The respondents provided information on the aspects of customer loyalty which prevents the customers from switching to other banks. The findings are provided in table 4.11.

Table 4. 11: Customer Loyalty

Indicators for Customer Loyalty	Mean	Std. Dev
It is difficult to change banks	2.2500	1.23828
I have excellent relationship with the staff	3.5625	1.03078
My bank is responsive to my changing needs	3.3125	.87321
My bank is efficient in handling complaints	3.3750	.95743
My bank offers me rewards and benefits	2.5625	.96393
Other banks cannot offer service and quality I want	2.3750	.88506

Source: (Research data, 2012)

Table 4.11 shows the findings on the aspects of customer loyalty that prevent customers from switching to other banks. The responses were collected using likert scale of 5 units. According to the scale 1 stand for "Strongly Disagree", 2 for

"Disagree", 3 for "Neither Agree nor Disagree, 4 for "Agree" and 5 for "Strongly Agree". The responses were analysed using descriptive statistics i.e. mean and standard deviation.

According to the scale, those variables with a mean close to 4.0 were agreed by the respondents, the respondents were neutral to those variables with a mean close to 3.0. The respondents disagreed with those variables with a mean close to 2.0. Mean while standard deviation was used to indicate the level of dispersion of the responses. From the findings, the customers stay in their banks because they have excellent relationship with the staff (M=3.56). However, the study found that the customers were never retained because of difficulties in changing banks (M=2.25), efficiency in handling complaints (M=3.37).

4.4.4 Complaints Handling

The study requested respondents to provide information on the mode of handling customers by their banks and their staying in the bank. Results are shown in table 4.12.

Table 4. 12: Complaints Handling

Common Complains	Mean	Std. Dev
Is efficient in handling complaints	3.3125	.87321
Listens to my complaints	3.6875	.87321
Is fair in handling complaints	3.6875	.79320

Source: (Research data, 2012)

Table 4.12 shows the findings on the mode of handling customers and customer retention. The responses were collected using likert scale of 5 units. According to the scale 1 stand for "Strongly Disagree", 2 for "Disagree", 3 for "Neither Agree nor Disagree, 4 for "Agree" and 5 for "Strongly Agree". The responses were analysed using descriptive statistics i.e. mean and standard deviation.

According to the scale, those variables with a mean close to 4.0 were agreed by the respondents, the respondents were neutral to those variables with a mean close to 3.0. The respondents disagreed with those variables with a mean close to 2.0. Mean while standard deviation was used to indicate the level of dispersion of the responses. From the findings, the findings indicate that the customers are retained by their banks because the banks staff listens to their complaints (M=3.68) and are fair when handling the complaints (M=3.68). However, the respondents were neutral on whether the bank efficiency in handling customer complaints.

4.4.5 Service Recovery and Quality

The study collected data on the service recovery and quality and the retention of the customers in the banks. The findings are shown in table 4.13.

Table 4.13: Service Recovery and Quality

Indicators for Recovery and Quality	Mean	Std. Dev
It is able to meet consumers expectations	3.8750	.95743
Customers perceptions are well considered	3.2500	1.34164
The actions they take to solve customers' problems is satisfying	3.1875	.98107
It offers quality products	3.7500	.93095
It has a reputation of superior service quality	3.7500	1.00000

Source: (Research data, 2012)

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Table 4.13 shows the findings on the service recovery and quality. The responses were collected using likert scale of 5 units. According to the scale 1 stand for "Strongly Disagree", 2 for "Disagree", 3 for "Neither Agree nor Disagree, 4 for "Agree" and 5 for "Strongly Agree". The responses were analysed using descriptive statistics i.e. mean and standard deviation.

According to the scale, those variables with a mean close to 4.0 were agreed by the respondents, the respondents were neutral to those variables with a mean close to 3.0. The respondents disagreed with those variables with a mean close to 2.0. Mean while standard deviation was used to indicate the level of dispersion of the responses. From the findings, the customers are retained in their banks since the bank could meet consumers expectations (M=3.87), variety of quality products (M=3.75) and reputation of superior service quality (M=3.75).

4.4.6 Interpersonal Relationship

The information on whether interpersonal relationship contributed to customer retention in banks is given in table 4.14.

Table 4.14: Interpersonal Relationship

Indicators for Interpersonal Relationship	Mean	Std. Dev
It offers personal recognition	3.3125	.94648
Its time conscious when attending to customers	3.1250	1.25831
Has offers on its products	3.0625	1.12361
Offers discount	2.5000	.63246

Source: (Research data, 2012)

Table 4.14 shows the findings on the interpersonal relationship on customer retention. The responses were collected using likert scale of 5 units. According to the scale 1 stand for "Strongly Disagree", 2 for "Disagree", 3 for "Neither Agree nor Disagree, 4 for "Agree" and 5 for "Strongly Agree". The responses were analysed using descriptive statistics i.e. mean and standard deviation.

According to the scale, those variables with a mean close to 4.0 were agreed by the respondents, the respondents were neutral to those variables with a mean close to 3.0. The respondents disagreed with those variables with a mean close to 2.0. Mean while standard deviation was used to indicate the level of dispersion of the responses. From the findings, the customers were never retained in their banks because their banks offered discounts (M=2.50). The findings also indicate that the respondents were neutral on whether the bank offers personal recognition (M=3.3) and its time consciousness when attending to the customers (M=3.12) contributed to their retention in their banks.

Other factors which helped to retain customers in banks were favourable interest rates on loans, innovation and technological use, base rates and the age of the bank.

The recommendation suggested to enhance effectiveness of customer retention were: introduction of electronic filling system, marketing and awareness, loyalty discounts, personalised customer services, staff training and speed in processing customer requests.

CHAPTER FIVE: SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter explains the study summary, discussions, conclusions, recommendations and suggestions for further study.

5.2 Summary of the findings

The data for this study was collected from customers of the bank. Majority of the respondents were women 10 (71%) while men accounted for 4 (29%) of the total respondents. Majority of the respondents were of the age bracket 31-40 years 43.8% (7) a sizeable number 37.5% (6) were between 18-30 years while 3 (18.7%) were aged between 41-50 years. The study deduces that majority of the Barclay customers are productive and youths aged between 31-40 years. The customers who provided information had worked and transacted financial services with banks for a period between 5-10 years (80%).

From the findings of the study, accuracy of transactions, delivery of services, efficiency of customer services, physical appearance of the bank and the convenience of the branch locations influence the ability of a bank to retain her customers. The study too established that customers could be retained by the perception of the customers on the bank products and services. The image of the bank, familiarity and reliability of the bank to the customers, competitiveness of the bank and uniqueness were also found to influence customers to stay longer in one bank.

The banks face challenges such as rigid credit policies, banking systems and their efficiencies, ineffective communication and promotional expenses. The study revealed some initiatives being used to retain customers as minimising attrition, reviewing, attrition numbers, unfunded accounts, and review of key processes / procedures to make them more effective and introduction of loyalty /reward program for existing customers.

5.3 Discussions of the findings

Given the high competition among banks, globalisation, adoption of mobile technology in banking, emergence of agent banking and other changes in banking industry, the banking environment has become highly competitive and the ability of banks to retain customers' calls for some well laid strategies. There are several factors which affect the bank's ability to retain customers. Some of the factors the study evaluated are discussed in detail in the following sections.

The study findings on the perception of the customers and the retention of the customers indicated that most customers valued their bank because of efficient services, convenience of branch locations, many branch locations and extended banking hours. However, the study noted that the customers did not value their banks since it offered latest electronic products or flexibility of banking policies. This is in agreement with (Anderson, 2000), who states that Few want to do business with a firm that cares little about customers, their comfort and concerns. If a firm owner or manager wants to be successful, that person needs to be very involved with meeting customer needs, or the customer will go elsewhere.

The corporate image of the bank was perceived differently by various customers. More importantly, the customers perceived their bank image as being widely known,

stable and reliable. Further, the study noted that the customers perceived their bank as a bank which could be trusted and a bank which could be involved in communal affairs. However, the study established that the respondents were neutral on whether their bank was liked and whether it was unique. These findings agree with (Turnbull, and Wilson, 1989) who says that successful firms protect their stable customer relationships through not only social but also structural bonds. Social bonds, according to Turnbull and Wilson (1989), refer to positive interpersonal relationships between employees in the buyer and seller organizations.

The customers expressed the ways in which their banks had competitive advantages. According to the findings, the customers expressed competitive advantages through memorable advertisements, offering unique and distinctive products and their banks offered competitive pricing compared to others. These findings concur with Gummesson (2002) that service firms' retention strategies are the firms' ability to convey confidence, to get the customers involved, and to be able to deliver good quality services.

The study established the factors which prevented them from switching from their current bank to other banks. These were identified as discussed below.

According to Gummesson (2002), customer service has importance because it ends in increasing product quality, gaining competitive advantage, gaining profitable opportunities, and as a result increasing sales and income. The findings of this study highlighted some of the aspects of the nature of the bank which help to keep customers from switching to other banks. From the findings the customers are retained in their banks because their banks are able to provide goods and services.

Other factors which prevent customers from switching to other banks include the good relationships the customers have with their bank and the fact that their banks offer wide variety of products.

The study established various factors which prevented customers from switching to other banks. The study established that customers were retained to their banks because the banks were able to meet the changing need of the customers, acceptability of the prices of the banks services, convenience of the bank branches and the ability of the bank to offer variety of products and services. Other factors which the bank established for retaining customers were reputation of superior service quality and the good image of the bank. Similar views were expressed by Stauss and Seidel (2004) who indicated that well-executed complaints-handling process was of strategic relevance because it has a positive effect on customer retention.

According to Bloemer and Ruyter (1998) store loyalty resulted from a consumer committed to the store through an explicit and extensive decision-making process. Similarly the study established some aspects on customer loyalty which kept customers retained in their banks. According to the findings, the study noted that customers were retained in their banks because of the excellent relationship with the staff.

The study noted that customers stick to their bank because they were at ease with the staff and the staff listens to their complains. Also their staff were fair when handling their complains. Berry (1995), argued that the continuous interpersonal relationship becomes a relationship-specific asset which acquires customer to pay cost to be out of

the relationship and therefore protects customer from being apart from the relationship with the company.

The quality of services offered by the bank were also studied to establish whether they influenced customer retention in banks. Some of the aspects were the ability of the bank to meet consumer expectations, variety of quality products and the reputation of superior service quality. According to Quality Coner and Gungor (2002), quality of product and service is directly related to customer satisfaction, and lead to the loyalty of the customer which in turn lead to customer retention.

The study established none of the interpersonal relationship aspect contributed to customer retention. The findings also indicate that the respondents were neutral on personal recognition of their banks and time consciousness when attending to the customers contributed to their retention in their banks. This contradicts Berry (1995), assertion that interpersonal relationship between the company and the customers can be an important factor as a switching barrier. Other factors which helped to retain customers in banks were favourable interest rates on loans, innovation and technological use, base rates and the age of the bank,

The study established that fluctuating economic conditions in last 18 months, rigid credit policies in comparison to other local banks, Bank System challenges affecting service delivery, ineffective communication to customers on price / strategic changes as well as increased and more aggressive promotions on liabilities / asset campaigns from the competition are just a few of some of the factors resulting in attrition numbers. These findings support an earlier preposition by Anderson and Mittal

(2000), that increased buyer willingness to pay price premiums, provide referrals, and use more of the product leading to attrition of numbers.

The study established that some initiatives put in place by the banks were more effective than others. For example the reduction of ATM charges to nil hardly increased usage of ATMs but with the Media Advertisement on Liabilities Mega Millionaire Promotion and Reduction in Base rate to 18.9% there was an increase in numbers. According to Anderson and Mittal (2000), a firm's future profitability depends on the degree of customer satisfaction in the present and retained customers.

The study established some strategies to be used to retain customer are that the Consumer Banking Retention Team to address the specific Customer Retention challenges and minimize attrition, working with MI to proactively monitor triggers of Attrition, Reviewing Attrition Numbers, Unfunded Accounts, review of key processes / procedures to make them more effective and introduction of loyalty /reward program for existing customers. Anderson and Mittal (2000) argued that customer satisfaction and retention that are bought through price promotions, rebates and switching barriers.

5.4 Conclusion

The study concludes that customer retention in banks is affected by the accuracy of transactions, delivery of services, efficiency of customer services, physical appearance of the bank and the convenience of the branch locations. The study also concludes that customer retention is influenced by the perception of the customers on the value of the products and services offered by the bank such as the efficiency and extended banking hours.

The study has noted that customer retention in banks is also influenced by the corporate image of the banks based on the stability, familiarity and reliability. The retention of the customers is also influenced by the competitive advantage of the bank through advertisements, unique and distinctive products and competitive pricing.

The study concludes that the performance of the bank in providing goods and services and variety of products helps to keep and retain customers in banks. The customers are retained in banks by the approach of the banks toward the market and her behaviour in marketing, customer loyalty, mode in which complaints are handled and provision of quality services to the customers by the banks. Other factors which retain customers in banks are interest rates on loans, innovation and technological use, base rates and the age of the banks.

The challenges facing banks in retaining and acquiring new customers were fluctuating economic conditions in last 18 months, rigid credit policies in comparison to other local banks, Bank System challenges affecting service delivery, ineffective communication to customers on price / strategic changes as well as increased and more aggressive promotions on liabilities / asset campaigns from the competition.

Some of the initiatives put in place to retain customers in banks were a Consumer Banking Retention Team to address the specific Customer Retention challenges and minimize attrition, working with MI to proactively monitor triggers of Attrition, Reviewing Attrition Numbers, Unfunded Accounts, review of key processes/ procedures to make them more effective and introduction of loyalty /reward program for existing customers.

5.5 Recommendations

The study recommends that the management puts strategies so as to satisfy their customers and to retain them and prevent them from switching to other banks. It also recommends that banks put in place a customer retention team to monitor and address issues contributing to customer switching and retention.

The study recommends that bank management take a major review of the procedures and policies of their banking activities so as to make them more customer responsive as this will make the customers satisfied and hence the bank will be able to retain them.

The study recommends that banks come up with a loyalty /reward program for existing customers to retain them in their banks. The banks should work to achieve and build on corporate images through provision of quality services, speed, innovativeness and competitive pricing.

5.6 Suggestions for Further Studies

This study was a case study on Barclays bank customers. The data was collected from the customers of Barclays Bank and interviews done on the staff of the same bank. The case could be different in other local banks in Kenya. The study therefore recommends that further studies be done on other banks to establish more on the factors influencing customer retention in other banks.

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APPENDICES

APPENDIX I: INTRODUCTORY LETTER

RE: PARTICIPATION IN RESEARCH

I am a postgraduate student pursuing my master degree in Business Administration at the University of Nairobi and conducting a research entitled "An Investigation of Factors Affecting Customer Retention in Commercial Banks: Case of Barclays Bank" as one of the major requirements.

In this regard, you have been selected to take part in this study as a respondent. Kindly respond to all items to reflect your opinion and experience. Please answer all the questions freely. You will not be identified from the information you provide and no information about individuals will be given to any organization. The data collected will be used for this academic research only.

Your participation is important for the success of this project and I greatly appreciate your contribution.

Yours Sincerely,

James Gathere Njane

APPENDIX I: INTERVIEW GUIDE FOR MANAGERS

Please respond the following questions:

1. Briefly describe the progress the company has made in acquiring new customers in the last five years

2. Briefly describe rate at which customers have been leaving the bank for the last five years

3. Which marketing strategies have been put in place to inform customers of services offered by the bank?

4. Have the marketing strategies been effective in acquiring new customers? Explain briefly.

5. Which strategies are employed by the bank to retain customers?

6. What is the role of corporate image of Barclays Bank of Kenya in customer retention?

7. Briefly explain the role of the following factors in customer retention at Barclays Bank of Kenya:

   a. Quality of service at the Barclays Bank of Kenya

   b. Service recovery or actions taken by a firm in response to a service failure at Barclays Bank of Kenya

   c. Good interpersonal relationship at Barclays Bank of Kenya

   d. Customer Satisfaction with services at Barclays Bank of Kenya

   e. Wide range of products at Barclays Bank of Kenya

   f. Fair charges for services at Barclays Bank of Kenya

   g. Good customer relations at Barclays Bank of Kenya

8. Which other factors affect customer retention strategies at Barclays Bank of Kenya?

9. What are the main challenges encountered in customer retention?

10. Which initiatives have been taken by the bank to overcome challenges met kin customer retention?

11. Recommend means of enhancing effectiveness of customer retention strategies at Barclays Bank of Kenya.

APPENDIX II: QUESTIONNAIRE FOR CUSTOMERS

PART A: GENERAL INFORMATION

1. Please provide responses to the questions below.

a.	Sex:	Male [ ] Female [ ]
b.	Age bracket	18-30 yrs [ ] 31-40yrs [ ] 41-50yrs [ ] Above 50 yrs[ ]
d.	Work duration:	Less than 1 yr [ ] 1-5 yrs [ ] 5-10yrs [ ] Above 10 years [ ]

PART B: FACTORS AFFECTING CUSTOMER RETENTION

To what extent do you agree with the following aspects of the factors which affect customer retention at Barclays Bank of Kenya? Tick appropriately using a likert scale of 5 where 1-Strongly Disagree, 2-Disagree, 3-Neither agree nor disagree, 4-Agree and 5-Strongly Agree.

2. **Customers Satisfaction and Retention**

    (1-Strongly Disagree, 2-Disagree, 3-Neither Agree nor Disagree, 4-Agree and 5-Strongly Agree)

I am satisfied with…	1	2	3	4	5
Accuracy of banking records					
Accuracy of transactions					

Access to electronic transactions					
The staff who deliver the services					
The efficiency of customer service					
The physical appearance of the branch					
Convenience of branch location					
The banks effort to inform customers about new products and services					
Charges for services offered in the bank					

3. **Customer Perception of Value**

(*1-Strongly Disagree, 2-Disagree, 3-Neither Agree nor Disagree, 4-Agree and 5-Strongly Agree*)

I value my bank because it has…	1	2	3	4	5
Efficient service					
Offers latest electronic products					
Listens and is sensitive to customers needs					
Convenient branch location					
Flexible banking policy					
Many branch locations					
Fair method of setting fees					
Extended banking hours					

4. **Perceived Corporate Image**

(*1-Strongly Disagree, 2-Disagree, 3-Neither Agree nor Disagree, 4-Agree and 5-Strongly Agree*)

I perceive the image of my bank is…	1	2	3	4	5
Widely-known					
Stable					
Reliable					
Trustworthy					
Involved in the community					
Well-liked					
Distinctive/Unique compared to others					

5. **Perceived Competitive Advantage**

(*1-Strongly Disagree, 2-Disagree, 3-Neither Agree nor Disagree, 4-Agree and 5-Strongly Agree*)

I perceive that my bank has competitive advantage because it…	1	2	3	4	5
Has excellent service quality					
Uses latest technology					
Has memorable advertisement					
Offers unique and distinctive products					
Has competitive pricing compared to others					

6. **Factors that prevent customers from switching to another bank**

(*1-Strongly Disagree, 2-Disagree, 3-Neither Agree nor Disagree, 4-Agree and 5-Strongly Agree*)

I do not feel like switching to another bank because…	1	2	3	4	5
My present bank is able to provide goods and services I need					
I see little advantage in switching to another bank					
I have good relationship with my bank					
It is not easy to switch from one bank to another					
My bank offers a wide variety of product					
I receive incentive from my bank					

7. **Behavioral Intentions**

(*1-Strongly Disagree, 2-Disagree, 3-Neither Agree nor Disagree, 4-Agree and 5-Strongly Agree*)

I chose my bank because I think…	1	2	3	4	5
It is able to meet consumers changing needs					
Prices of services are acceptable					
It has convenient branch location					
It offers a variety of products					
It has a reputation of superior service quality					
It has a favorable image					

8. **Customer Loyalty**

(*1-Strongly Disagree, 2-Disagree, 3-Neither Agree nor Disagree, 4-Agree and 5-Strongly Agree*)

I stay with my bank because…	1	2	3	4	5
It is difficult to change banks					
I have excellent relationship with staff					
My bank is responsive to my changing needs					
My bank is efficient in handling complaints					
My bank offers me reward and benefits					
Other banks cannot offer service and quality I want					

9. **Complaints Handling**

(*1-Strongly Disagree, 2-Disagree, 3-Neither Agree nor Disagree, 4-Agree and 5-Strongly Agree*)

I value my bank because it …	1	2	3	4	5
Is efficient in handling my complains					
Listens to my complains					
Is fair in handling complains					

10. Service Recovery and Quality

(*1-Strongly Disagree, 2-Disagree, 3-Neither Agree nor Disagree, 4-Agree and 5-Strongly Agree*)

I chose my bank because I think…	1	2	3	4	5
It is able to meet consumers expectations					
Customers perceptions are well considered					
The actions they take to solve customers problems is satisfying					
It offers quality products					
It has a reputation of superior service quality					

11. Interpersonal Relationship

(*1-Strongly Disagree, 2-Disagree, 3-Neither Agree nor Disagree, 4-Agree and 5-Strongly Agree*)

I chose my bank because I think…	1	2	3	4	5
It offers personal recognition					
Its time conscious when attending to customers					
Has offers on its products					
Offers discount					

12. Which other factors affect customer retention strategies at Barclays Bank of Kenya?

a)

b)

c)

d)

13. Recommend means of enhancing effectiveness of customer retention strategies at Barclays Bank of Kenya

a) ………………………………………………………………………………………

b) ………………………………………………………………………………………

c) ………………………………………………………………………………………

d)………………………………………………………………………………………