FACTORS AFFECTING CUSTOMER LOYALTY AT CO-
OPERATIVE BANK OF KENYA

BY
TEDDY MWANDA

A RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF
BUSINESS, UNIVERSITY OF NAIROBI.

NOVEMBER, 2012
DECLARATION

This research project is my original work and has not been submitted for examination in any other university.

Signature……………………………                    Date………………………………………
TEDDY MWAURA
D61/P/7604/2005

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

Signature………………………..                         Date……………………………………..
CATHERINE NGAHU
LECTURER
SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI
ACKNOWLEDGEMENTS

From the formative stages to the final project of this Master of Business Administration project, I owe an immense debt of gratitude to my supervisor, Catherine Ngahu for her invaluable support towards this project. His constructive criticism, careful guidance and patience enabled me to complete the project in time.

I would also like to thank those who agreed to fill the questionnaires for without your time and cooperation, this project would not have been possible. Special thanks goes to the proposal presentation panel and colleagues who were present during the presentation of this project proposal.

Finally, but most importantly, I sincerely thank our Almighty God for giving me the strength and providing means to undertake this study. To each of the above, I extend my deepest appreciation.
DEDICATION

I dedicate this research project to my loving wife, Sylvia Waceke Ngugi, who has been a great source of inspiration and joy in my daily endeavors to better my best.

To my family members who offered me unconditional love and support throughout the course of this project.
ABSTRACT

The main objective of the study was to determine the factors influencing customer loyalty in the banking industry and recommend effective measure to build customer loyalty in the banking industry. The survey research design was descriptive in nature. The population of study consisted of scheme of 720 clients at the Cooperative Bank of Kenya and out of which a sample of 216 respondents was drawn using stratified random sampling technique. Data was collected using questionnaires and quantitative method of data analysis was used. The descriptive statistics were analysed using Statistical Package for Social Sciences (SPSS).

The study findings revealed that customer loyalty is influenced by quality of banks customer service, brand image, price fairness product mix, customer perception of the bank products, effectiveness advertisement, service value and establishment of customer trust on bank services. However, the study established that customer loyalty is not influenced by demographic factors such as gender and occupation. The study aims to build on customer loyalty which include; creation of a cordial relationship with the customer, discovery of what the customer values most, clear communication of the organizational, investigating the reasons why customers leave the bank, asking for referrals, making loyalty-building a team effort, meeting customers' expectations, creating a feedback system for the customers and handling customer complaints effectively, engaging customers in a two-way dialogue, conducting a survey of customers loyalty, creating system for correcting, linking customer loyalty to expected business outcomes and applying statistical methods to predict future customer loyalty. The study
recommends a comprehensive survey of factor that affect loyalty prior to formulation of strategies to enhance customer loyalty, adoption of the identified factors in formulation of customer retention policies and further research on effective methods that banks can use to measure and predict customer loyalty were identified.
TABLE OF CONTENTS

DECLARATION .................................................................................................................. ii

ACKNOWLEDGEMENTS ................................................................................................. iii

DEDICATION ..................................................................................................................... iii

ABSTRACT ............................................................................................................................ iii

LIST OF TABLES ................................................................................................................... ix

LIST OF FIGURES ................................................................................................................. x

LIST OF ABBREVIATIONS .................................................................................................... xi

CHAPTER ONE: INTRODUCTION ....................................................................................... 1

1.1 Background of the study .............................................................................................. 1

1.1.1 Customer Loyalty ..................................................................................................... 1

1.1.2 Banking Industry in Kenya ....................................................................................... 2

1.1.3 Cooperative Bank of Kenya ..................................................................................... 4

1.2 Research Problem ........................................................................................................ 5

1.3 Research Objectives .................................................................................................... 7

1.4 Value of the Study ....................................................................................................... 7

CHAPTER TWO: LITERATURE REVIEW .............................................................................. 9

2.1 Introduction ................................................................................................................ 9

2.2 Theoretical review ..................................................................................................... 9

2.3 Concept of Customer Loyalty ..................................................................................... 10
2.4 Factors Affecting Customer Loyalty ................................................................. 13
  2.4.1 Customer Satisfaction .................................................................................. 13
  2.4.2 Service Quality .......................................................................................... 15
  2.4.3 Brand Image .............................................................................................. 16
  2.4.4 Product Mix ............................................................................................... 17
  2.4.5 Perceived Price .......................................................................................... 18

CHAPTER THREE: RESEARCH METHODOLOGY ................................................. 20
  3.1 Introduction ................................................................................................... 20
  3.2 Research Design ............................................................................................ 20
  3.3 Target Population .......................................................................................... 20
  3.4 Sample and Sampling Procedure ................................................................... 21
  3.5 Data Collection .............................................................................................. 22
  3.6 Data Analysis ................................................................................................. 22

CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS ............................... 24
  4.1 Introduction ................................................................................................... 24
  4.1.1 Reliability of the Data ............................................................................... 24
  4.1.2 Response Rate ........................................................................................... 24
  4.2 Demographic Characteristics of the Respondents ........................................... 25
    4.2.1 Gender of the Respondents and Customer Loyalty .................................. 25
    4.2.2 Occupation of the respondents and Customer Loyalty .............................. 27
    4.2.3 Duration of Membership and Customer Loyalty ..................................... 28
4.3 Factors Affecting Customer Loyalty in the Banking Industry

4.3.1 The Level of Respondents’ Loyalty to Cooperative Bank of Kenya

4.3.2 Quality of Banks Service and Customer Loyalty

4.3.3 Customer Service and Customer Loyalty

4.3.4 Brand image and Customer Loyalty

4.3.5 Price fairness and Customer Loyalty

4.3.6 Product mix and customer loyalty

4.3.7 Customer perception of the bank products and customer loyalty

4.3.8 Additional factors influencing customer loyalty towards the banks products and services

4.4 Effective measure to build customer loyalty at Cooperative Bank of Kenya

CHAPTER FIVE: SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

5.2 Summary of the study findings

5.3 Conclusion

5.4 Recommendations of the study

5.4.3 Recommendations for policy intervention

5.3.2 Recommendation for further studies

REFERENCES

Appendix 1: Questionnaire
LIST OF TABLES

Table 4.1: Response rate ........................................................................................................25
Table 4.2: Chi-Square Tests for influence of gender on customer loyalty .................26
Table 4.3: Occupation of the respondents .........................................................................27
Table 4.4: Chi-Square Tests for influence of occupation on customer loyalty ..........28
Table 4.5: Chi-Square Tests for influence of duration of membership and customer
loyalty ..................................................................................................................................29
Table 4.6: The influence of Customer service on customer loyalty ...............................33
Table 4.7: The influence of brand image on customer loyalty .........................................34
Table 4.8: Influence of perceived price on customer loyalty ...........................................36
Table 4.9: Product mix and customer loyalty ....................................................................37
Table 10: Factors affecting customer loyalty ....................................................................39
Table 4.11: Factors affecting customer loyalty .................................................................40
List of Figures

Figure 4.1: Gender of the Respondents ................................................................. 25
Figure 4.2: Duration of membership with the bank ............................................. 29
Figure 4.3: The level of respondents’ loyalty to their banks .............................. 31
Figure 4.4: Influence of service quality on customer loyalty ............................... 32
Figure 4.5: Influence of perceived price on customer loyalty .............................. 35
Figure 4.6: The influence of customer perception on customer loyalty ............... 38
LIST OF ABBREVIATIONS

CBK - Central Bank of Kenya

KCC  - Kenya Co-operative Creameries
KFA  - Kenya Farmers Association
KPCU - Kenya Planters Co-operative Union
HCU  - Horticultural Co-operative Union
KNFC - Kenya National Federation of Co-Operatives
CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Customer loyalty is marketing activities in the center of the structure of the feelings of the consumer product measure, reflecting a consumer shift to another brand to the extent possible. Therefore, customer loyalty is reflected in consumer behavior and loyalty to the products linked to future profits, the wealth portfolio indicator, because the loyalty of enterprise products directly into future sales (Hawkes, 2003).

Depending on the particular industry, it is possible to increase profit by up to 60% after reducing potential migration by 5% (Reichheld, Markey and Hopton, 2000). Hence we can see that the increase and retention of loyal customers has become a key factor for long-term success of the companies. Trustworthiness of the partner is a factor that has certain impact on the establishment of loyalty nobody expects a long-term relation with a partner that cannot be trusted. Trustworthiness is one criterion for measuring the value of the partner (Doney and Cannon, 1997). Morgan and Hunt (1994) argue that trust is a major determinant of relationship commitment brand trust leads to brand loyalty because trust creates exchange relationships that are highly valued. Chaudhuri and Holbrook (2001), states that brand trust is directly related to both purchase and attitudinal loyalty.

1.1.1 Customer Loyalty

Many definitions describe loyalty as a desire to retain a valuable or important relationship. (Morgan and Hunt, 1994; Moorman, Deshpande and Zaltman, 1993) That way the establishment of loyalty is predetermined by the importance of relevant
relationship or selection. Morgan and Hunt (1994) points out three aspects that may increase the importance of the relationship: strategic importance of a product, high risks involved in the transaction or costs incurred by cancellation of contracts.

Loyalty refers as building and sustaining a trusted relationship with customers that lead to the customers’ repeated purchases of products or services over a given period of time (Lam, Shankar, Erramilli, & Murthy, 2004). Customer loyalty, in general, increases profit and growth to the extent that increasing the percentage of loyal customers by as little as 5% can increase profitability by as much as 30% to 85% of the working capital, depending upon the industry involved (Ganesh, Reynolds and Arnold, 2000). Loyal customers are typically willing to pay a higher price and more understand when something goes wrong. They are easier to satisfy because the vendor knows the customers’ expectations better (Ganesh, Reynolds and Arnold, 2000). Hawkes (2003), found that loyal customers are less price sensitive and lower costs are incurred by providers as the expense of pursuing new customers is reduced. The presence of a loyal customer base provides the firm with valuable time to respond to competitive actions. Customers demonstrate their loyalty in several ways. They may choose to stay with a provider, whether this continuance is defined as a relationship or not, or they may increase the number of, or the frequency of, their purchases.

1.1.2 Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act (CAP 486), the Banking Act (CAP 488), the Central Bank of Kenya Act (CAP 491) the various
prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalised in 1995 and foreign exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2010 there were forty six banking and non bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. The locally owned financial institutions comprise 3 banks with significant government shareholding and 28 privately owned commercial. The foreign owned financial institutions comprised 8 locally incorporated foreign banks and 4 branches of foreign incorporated banks. Of the 42 private banking institutions in the sector, 71% are locally owned and the remaining 29% are foreign owned (Central Bank of Kenya, 2010).

The changing perception of bank marketing has made it a social process. The significant properties of the holistic concept of management and marketing has made bank marketing a device to establish a balance between the commercial and social considerations, often considered to be opposite of each other. Recent years have shown a growing interest in customer loyalty. The globalization of competition, saturation of markets, and development and use of information technology have enhanced customer awareness and created a situation where long-term success is no longer achieved through optimized product price and qualities. Instead, companies build their success on a long-term customer relationship.
1.1.3 Cooperative Bank of Kenya

In 1931, the first legislation to specifically govern the registration of co-operatives (Co-operative societies Ordinance) was enacted. Kenya Co-operative Creameries (KCC) became the first co-operative to be registered on 8th February 1931. This was followed shortly by Kenya Farmers Association (KFA) in 1931, the Kenya Planters Co-operative Union (KPCU) in 1937 and the Horticultural Co-operative Union (HCU) in 1951. However, the 1931 Ordinance did not allow Africans to participate in co-operatives. In 1945, the 1931 Ordinance is replaced with a new one that allows Africans to participate in and even form their own co-operatives (www.cooperativebank.co.ke).

In 1964, the need to bring about a more efficient and effective co-ordination of both internal and external assistance in addition to providing relevant financial services to the co-operative movement, the Government considered the idea of setting up of a co-operative bank. It is deemed necessary to conduct a survey to ensure the bank is set on sound footing. As a result of initiative and advice of KNFC, a group of people from the Department of Co-operative Development visit Israel to study ways and means of establishing a viable co-operative bank. The same year, a joint paper by the Ministry of Finance and Marketing & Co-operatives Development recommending the establishment of the bank is issued (www.cooperativebank.co.ke).

In 1994, the Bank to become a fully-fledged commercial bank offering the complete range of financial services beyond the captive Co-operative sector to include personal, corporate and institutional customers. In 1998, the Bank signed a contract with
MoneyGram International in October 1998, and becomes the agent for the company's international funds remittance business. On August 7th, the Bank suffered a major setback from a terrorist bombing that completely guts the Bank's Head office, Cooperative House, necessitating a full re-location of the Bank to alternative premises. Despite the bombing, suspected to have been targeted at the neighboring Embassy of the United States, the Bank managed to realize a remarkable recovery and retain the confidence of customers and other stakeholders (www.cooperativebank.co.ke).

In 2000, the Bank reported a significant reduction in performance by posting a Kes 2 billion loss. The bank interconnects all branches countrywide and becomes only the second bank in Kenya to offer fully centralized banking. In 2008, the bank lists on the Nairobi Stock Exchange on December 22. The listing follows a public offer of 701.3 million shares at Kshs 9.50 which achieves an 81% subscription to raise Kshs 5.4 billion in additional capital on top of the existing Kshs 7.4 billion. This is made possible as the bank's special general meeting on 27th June approves conversion of the bank to a limited liability company from a co-operative society that it has been since inception in 1965. All previous shares held by the Co-operatives are ring-fenced under the Co-op holdings Cooperative Society Limited which becomes the strategic investor in the bank (www.cooperativebank.co.ke).

1.2 Research Problem

Customer loyalty is one of the most important issues organizations face today. Creating loyal customers has become more important due to significant increase in competition
and concentrated markets. Businesses are trying to attract and satisfy customers and to build longterm relationship through building loyalty among customers. As markets become more competitive, many companies recognise the importance of retaining current customers and some have initiated a variety of activities to improve customer loyalty. Indeed, the benefits associated with customer loyalty are widely recognised within business. These include lower costs associated with retaining existing customers, rather than constantly recruiting new ones especially within mature, competitive markets (Ehrenberg and Goodhardt, 2000).

Developing a network of loyal and satisfied customers is critical for the survival of many corporations (Ehrenberg and Goodhardt, 2000). Traditionally there are two approaches to treat customer loyalty. Some researchers have investigated the nature of different levels of loyalty; others have explored the influence of individual factors on loyalty. The starting point is to know the influence of factors including trustworthiness, product image, customer relationship and customer satisfaction on customer loyalty. In emerging markets like banking industry in Kenya it is more important to determine factors affecting customer loyalty due to the continuous influx of new players in potential industries.

The banking industry being very competitive and homogeneous, it is difficult to maintain a customer. Much literature has focused on loyalty of customers an analysis of strategic responses to increased competition amongst commercial banks in Kenya (Odhiamo, 2007) and competitive strategies adopted by commercial bank (Kariuki, 2008) and factors
determining brand loyalty in Tuskys Supermarket (Godfrey, 2007). No known study that have been done on factors affecting customer loyalty on cooperative bank therefore the study will answer the question; what are the factors affecting customer loyalty at Co-operative bank of Kenya?

1.3 Research Objectives

i. To determine the factors influencing customer loyalty in the banking industry

ii. To determine how Co-operative bank can adopt effective measure to build customer loyalty.

1.4 Value of the Study

This study will aim at contributing to the current body of knowledge on the customer loyalty in the banking sector in Nairobi. The study would also be of importance to customer service trainers, and civic bodies such as Consumer Insight. It hoped to capture expectations of what are considered to be acceptable standards by customers. Trainers and civic bodies would be able to educate customers on acceptable standards of service. The managers at the Co-operative Bank of Kenya will gain additional knowledge in relation to the issues that need to be addresses to retain customers. This will enable them beat the competition experienced from other banks. The customers will be able to understand the factors that need to be put in place to be able to obtain adequate and quality service. They will be adequately informed on what they should demand from the bank.
The policy implications of this study would also be important to government bodies such as the Central Bank of Kenya, as it captures respondents’ recommendations about customer loyalty. This information, if put to use, would help improve the standards of customer loyalty. Customers and shareholders would stand to benefit the most if the results of this study are put to use. If banks improve on customer loyalty, customers would be more likely to be loyal. Therefore, fewer other resources would be needed to attract and keep new customers, eventually positively affecting shareholder value. The literature also indicates that loyal customers are more likely to shop for more products, to stay longer with the same provider, and to speak positively about the service to other people.

The study focuses on the topic of customer loyalty, in this regard; scholars in this area will use this study as a form of reference. In addition, researchers will be able to gain additional knowledge from the case study given that it is focusing on a particular bank.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review, specifically the literature review focuses on the variables of the study, and the discussion includes challenges faced by local commercial banks in enhancing customer loyalty, theories, performance reviews, and success determinant factors. It also focuses on exploring the empirical review effects of these challenges on performance of the commercial banks.

2.2 Empirical review

Customer loyalty marketing theory is prevalent in the 20th century, 70 years in the corporate image design theory and 80 age theory of customer satisfaction (Ehrenberg and Goodhardt, 2000). The main content can be expressed as follows as an enterprise should in order to meet customer needs and expectations as the goal, to effectively eliminate and prevent customer complaints and complaints to continuously improve customer satisfaction, promote customer loyalty, in the enterprise and its customers to establish a kinds of mutual trust and interdependence of the quality of the value chain.

Reichheld et al (2000) stress that customer loyalty is the customer's business products or services the feelings of attachment or love, it mainly through the customer's emotional loyalty, behavioral loyalty and sense of loyalty shown. In which the performance of emotional loyalty to customers of enterprises ideas, behavior and visual image of a high degree of acceptance and satisfaction; acts of loyalty to the performance of re-spending customers when business products and services, repeat purchase behavior; sense of
loyalty to the performance of the customer's right to make company's products and services, future consumption intentions. In this way, from the emotion, behavior and consciousness composed of three aspects of customer loyalty marketing theory, focused on the assessment of trends in customer behavior, by which to carry out evaluation activities, reflecting the business activities of enterprises in the future competitive advantage.

In marketing activities, marketing concept is the basis for the formation of corporate strategy. Customer loyalty marketing theory advocates customer-centric, suggesting that corporate marketing activities must be carried out around this center, customer focus the evaluation of the enterprise, the pursuit of customer satisfaction and high loyalty, which is marketing the concept of perfection and development. Customer Loyalty Marketing Theory require the enterprises to the customer as an important resource for business, corporate clients in a systematic management, by means of customer relationship management software, access to customer information, and business Strategy as a basis for decision making. Practice has proved that customer loyalty by promoting the formation of the core competitiveness of enterprises will be reflected in business activities (Lau and Lee, 1999).

2.3 Concept of Customer Loyalty

Loyalty is defined as a deeply held commitment to re-buy and re-patronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behaviour (Kumar et al, 2006). On the same note
Shoemaker and Lewis (1999) argues that loyalty occurs when the customer feels that the firm and its products and services can best meet his/her relevant needs that competitors are virtually excluded from the consideration set. According to Morgan and Hunt (1994), loyalty to a customer is the tendency to choose one business or a product over another.

The concept of customer loyalty often used in the literature incorporates behavioral and attitudinal measures. Loyalty is also defined as building and sustaining a trusted relationship with customers that leads to the customers’ repeated purchases of products or services over a given period of time (Lau and Lee, 1999). Customer loyalty, in general, increases profit and growth to the extent that increasing the percentage of loyal customers by as little as 5% can increase profitability by as much as 30% to 85%, depending upon the industry involved (Ganesh et al, 2000). Loyal customers are typically willing to pay a higher price and more understand when something goes wrong.

Approaches to study of customer loyalty fall into three broad categories namely; Behavioral approach which examines the customers continuity of past purchases, then measures customer loyalty by rate of purchase, frequency of purchase and possibility of purchase. Secondly, Attitudinal approach, which infers customer loyalty from psychological involvement, favoritism and a sense of good will towards a particular product or service and thirdly, integrated approach, which takes account of both the two approaches in order to create its own concept of brand loyalty (Lau and Lee, 1999). One can conclusively say that for brand loyalty to exist consumers exhibit certain behavior towards the brand. This behavior reflects some degree of attachment to the brand, repeat
purchase, possible attitude towards the brand and some level of commitment towards the brand.

To achieve customer loyalty a brand must go beyond achieving visibility and differentiation. The brand should develop deep relationships with the customer group where the brand becomes meaningful part of the customer's life. When this occurs the customer will be highly loyal (Kotler et al, 2001). Customer service consists of several services designed to aid in the sale of a product as well as after sales support and information. They may include credit, delivery, gift wrapping, merchandise returns, longer store hours, parking, toll free calling lines, and personal service (Sirdeshmukh et al, 2002). Cannon and Cannon (2005) concurs by saying that customer service refers to the activities that increase the quality and value that customers receive when they shop and purchase merchandise.

Advertising also determines the level of brand loyalty. The rate at which a firm advertises its products or services help to increase awareness thus influencing the loyalty level (Morgan and Hunt, 1994). Consumers will always wish to associate themselves with reputable organizations in terms of structure and service delivery. The Quality of the product is also an additional determinant of brand loyalty.

Most managers’ interest in loyalty derives from a desire to enhance the level of loyalty among their customers and clearly requires strategies for the management of loyalty. But loyalty will not be managed without measurement, which supports some evaluation of the
progress achieved through any loyalty programme. In addition, attempts to measure loyalty provide another perspective on the nature of loyalty (Furse et al., 1984).

2.4 Factors Affecting Customer Loyalty

To determine the level of customer loyalty to a given brand or company, a focus should be given to aspects of customer orientation towards a given product or service. With this regard, various perspectives may be taken to review customer loyalty both for service and product oriented brands. This study will review the factors affecting customer loyalty in the banking industry with regard to customer satisfaction, service quality, brand image, product mix, perceived price fairness and social-cultural aspects at Co-operative bank.

2.4.1 Customer Satisfaction

Customer satisfaction is one of the key factors in modern marketing and customers’ behavior analysis. Generally speaking, if the customers are satisfied with the provided goods or services, the probability that they use the services again increases (Sirdeshmukh et al, 2002). Also, satisfied customers will most probably talk enthusiastically about their buying or the use of a particular service; this will lead to positive advertising (Reichheld et al, 2000). On the other hand, dissatisfied customers will most probably switch to a different brand; this will lead to negative advertising. The importance of satisfying and keeping a customer in establishing strategies for a market and customer oriented organization cannot be neglected (Jones et al, 1990). Customer satisfaction is often considered the most important factor in thriving in today’s highly competitive business world.
Services have unique characteristics that distinguish them from the physical goods (Zeithaml and Bitner, 1996). Services are often characterized by intangibility, inseparability, heterogeneity, and perishability (Mackintosh and Lockshin, 1997). The importance of the above characterizations is that using them for evaluation before, while, and after using a particular service by the customers is often very hard (Lau and Lee, 1999).

The impact of satisfaction on loyalty has been the most popular subject of studies. Several studies have revealed that there exists a direct connection between satisfaction and loyalty: satisfied customers become loyal and dissatisfied customers move to another vendor (Bodet, 2008). The primary objective of creating ACSI (American Customer Satisfaction Index) in 1984 was to explain the development of customer loyalty. In ACSI model customer satisfaction has three antecedents: perceived quality, perceived value and customer expectations (Bennett and Rundle-Thiele, 2004).

In both model increased satisfaction should increase customer loyalty. When the satisfaction is low customers have the option to exit (e.g. going to a competitor) or express their complaints. Researches have shown that 60–80% of customers who defect to a competitor said they were satisfied or very satisfied on the survey just prior to their defection (Reichheld et al. 2000).
2.4.2 Service Quality

Sirdeshmukh et al. (2002) 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. Mackintosh and Lockshin (1997) suggested that corporate brand loyalty affected online shoppers' intentions to revisit the website.

Bodet (2008), 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 discriminant 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 (Cannon and Cannon, 2005).

Service quality literature indicated that perceptions of high service quality and high customer satisfaction resulted in a very high level of purchase intentions (Furse et al, 1984). Mackintosh and Lockshin (1997) 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 leads to the loyalty of the customer (Day, 2003). 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 (Reichheld et al, 2000).

Based on empirical findings in service quality and satisfaction literature, service quality is one of the antecedents of satisfaction (Shoemaker and Lewis, 1999), and loyalty is one of the consequences of satisfaction. Moorman et al (1993) tested their hypothesized customer loyalty model and found that customer satisfaction, perceived value, and customer loyalty were different constructs. Their findings indicated that not only customer satisfaction and perceived value directly affected customer loyalty, but also indirectly affected customer loyalty through commitment.

2.4.3 Brand Image

Image of brand or supplier is one of the most complex factors. It affects loyalty at least in two ways. Firstly, customer may use his preferences to present his own image. That may occur both in conscious and subconscious level (Farr and Hollis, 1997). Aaker (1999) has shown how consumers prefer brands with personality traits that are congruent with the personality traits that constitute their (malleable) selveschemas (Aaker 1999). Lau and Lee (1999) have researched the link between brand personality and loyalty. They did get positive support to hypothesis that the attractiveness of the brand personality indirectly affects brand loyalty.

Tellis (1988) have showed that people use products to enhance self-image. Secondly, according to social identity theory, people tend to classify themselves into different social
categories. That leads to evaluation of objectives and values in various groups and organisations in comparison with the customer’s own values and objectives. They prefer partners who share similar objectives and values (Ashforth et al. 2001). Sirdeshmukh et al (2002) states that consumer-brand relationships are more a matter of perceived goal compatibility. Brands cohere into systems that consumers create not only to aid living but also to give meanings to their lives. Oliver (1999) argues that for fully bonded loyalty the consumable must be part of the consumer’s self-identity and his or her social-identity.

2.4.4 Product Mix

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 (Cannon and Cannon, 2005). 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, and 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 (Wernerfelt, 1991). 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. 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).

2.4.5 Perceived Price

Price charged by the company in relation to the quality can also affect the level of brand loyalty. From the consumer's perspective, the monetary cost of something is what is given up or sacrificed to obtain a product (Zeithaml and Bitner, 2000). Thus, in studies on related topics, price has often been conceptualized and defined as a sacrifice. There are three components to the concept of price: objective price, perceived non-monetary price, and sacrifice (Zeithaml and Bitner, 2000).
As to the relationship between price and satisfaction, research has shown that price is one of the determinants of customer satisfaction (Zeithaml and Bitner, 2000). When customers were asked about the value of services rendered, they consistently considered the price charged for the service. 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).

The theoretical formation of price perception in services remains largely unexplored (Zeithaml and Bitner, 2000). 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 (Day, 2003) as well as on behavioral intentions (Mackintosh and Lockshin, 1997). 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 provides a discussion of the outline of the research methodology that was be used in this study. It focuses on the research design, population of study, sample and sampling techniques, data collection methods and comes to a conclusion with the data analysis and data presentation methods that were used in this study.

3.2 Research Design

The survey research design was descriptive in nature. According to Cooper and Schindler (2000), a descriptive study design is deemed the best design to fulfill the objectives of the study. Case study research design has the advantage of generating new understandings, explanations and is cheaper than survey and takes less time; it is for this that the study adopted a case study research design. The study makes use of the survey method which according to Gill and Johnson (1997) is suitable in this context. Moreover According to Jankowicz (2002), surveys are particularly useful when you want to contact relatively large numbers of people to obtain data on the same issue or issues, often by posing the same questions to all.

3.3 Target Population

The population of study consisted of 720 scheme of clientele at the Cooperative Bank Of Kenya which was representative of each scheme; there are 120 corporate schemes and 600 retail clients as at the end of year 2011. Each scheme have a strata of bank client
according to account number, age, occupation, income category and clients preferences;
These are the people best placed to provide the required information.

Table 3.1: Target Population

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate schemes</td>
<td>120</td>
</tr>
<tr>
<td>Retail clients</td>
<td>600</td>
</tr>
<tr>
<td>Total</td>
<td>720</td>
</tr>
</tbody>
</table>

Source: Author 2012

3.4 Sample and Sampling Procedure

Cooper and Schindler (2000) state that the sample size is the selected element or subset of the population that is to be studied to ensure that the sample accurately represents the population. Sampling is a deliberate choice of a number of people who are to provide the data from which you will draw conclusions about some larger group, whom these people, represent (Cooper and Schindler, 2000). The study used stratified random sampling technique to select a sample. The technique produced estimates of overall population parameters with greater precision. The study grouped the population into four strata i.e. one client on each schemes where there are 120 corporate schemes and 600 retail clients as at the close of 2011. From each stratum the study used simple random sampling to select 216 respondents. The goal of stratified random sampling is to achieve the desired representation from various sub-groups in the population. Mugenda and Mugenda (2003), states that a sample of 30% is considered representative for a population greater 300. The sample size is justified by 30% since it minimize the duplicity and redundancy of the data.
to be obtained and the size is large enough to ensure collection of comprehensive data. The table below shows sampling to be done on respective functional categories.

Table 3.2: Sampling Frame

<table>
<thead>
<tr>
<th>Strata</th>
<th>Population</th>
<th>percentages</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Clients</td>
<td>120</td>
<td>30</td>
<td>36</td>
</tr>
<tr>
<td>Retail Clients</td>
<td>600</td>
<td>30</td>
<td>180</td>
</tr>
<tr>
<td>Total</td>
<td>720</td>
<td></td>
<td>216</td>
</tr>
</tbody>
</table>

Source: Author, 2012

3.5 Data Collection

Data was collected using questionnaires. A structured questionnaire was administered; the questions was in closed and open-ended format and was based on the research objectives. A questionnaire was the preferred mode of data collection as it allows for the collection of a lot of data over a short period of time and with minimal interruption to the respondents schedules. The questionnaire consisted of two parts A and B. Part A captured the biographical data Part two addressed the major issues; that is challenges facing their bank in enhancing customer loyalty. The questionnaires were distributed by the researcher through hand-delivery or email requests. Due to the fact that the respondents are in easily accessed locations within the region.

3.6 Data Analysis

This study used the quantitative method of data analysis which involves descriptive statistics. According to Cooper and Schindler (2000) descriptive statistics involves a
process of transforming a mass of raw data into tables, charts, with frequency distribution and percentages which are a vital part of making sense of the data. Data was coded and thereafter analyzed using Statistical Package for Social Sciences and presented using tables and pie charts to give a clear picture of the research findings at a glance. This research yielded qualitative data from the open ended questions from the questioner and analyze using content analysis because this study seeks to solicit data that is qualitative in nature.
CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter contains data presentation and analysis. The main objective of the study was to determine the factors influencing customer loyalty in the banking industry and recommend how Cooperative Bank of Kenya can adopt effective measure to build customer loyalty. The reliability of the questionnaires and the response rate for the study were determined.

4.1.1 Reliability of the Data

The reliability of the data collected for the study was determined through ascertaining the reliability of the questionnaires used in data collection. Reliability was computed by determining the degree of consistency in responses elicited in the questionnaires. The Spearman rank order correlation (r), whose acceptable range of reliability lies between 0.600 and 0.900, was used to compute the reliability of the questionnaires in the study. The Spearman rank order correlation (r) was 0.812 indicating that questionnaires used were reliable and the data collected can be generalized to the entire target population.

4.1.2 Response Rate

The target population for the study comprised of 720 scheme of clientele at the cooperative bank of Kenya out of which a sample of 216 scheme of clientele was drawn. Table below illustrates the response rate for the study.
Table 4.1: Response rate

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Sample</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate schemes</td>
<td>36</td>
<td>31</td>
<td>18</td>
</tr>
<tr>
<td>Retail clients</td>
<td>180</td>
<td>143</td>
<td>82</td>
</tr>
<tr>
<td>Total</td>
<td>216</td>
<td>174</td>
<td>80</td>
</tr>
<tr>
<td>Overall response rate</td>
<td>80.6%</td>
<td></td>
<td>80.6</td>
</tr>
</tbody>
</table>

Table 4.1 indicated that the response rate for the study was 80.6% which was sufficient and representative of the entire population. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

4.2 Demographic Characteristics of the Respondents

The study established whether demographic characteristics of the respondents influence customer loyalty at Cooperative Bank of Kenya. The study findings are presented in the following sub sections.

4.2.1 Gender of the Respondents and Customer Loyalty

The gender of the respondents who participated in the study is illustrated in Figure 4.1:
Figure 4.1: Gender of the Respondents

Figure 4.1 above shows that gender representation was fair distributed, the study with 54.6% of the respondents being male and 45.6% of the respondents being female. In order to determine if gender has any influence on customer loyalty, Chi-Square Tests was carried out. The study findings are shown in the table below.

Table 4.2: Chi-Square Tests for influence of gender on customer loyalty

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>1.629*</td>
<td>4</td>
<td>.734</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>1.646</td>
<td>4</td>
<td>.732</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>.424</td>
<td>1</td>
<td>.535</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>174</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 24.14.
Chi-Square Tests was done using SPSS to test whether gender has any influence on customer loyalty. The P values less than the significant level of 0.05 lead to establishment of the relationship between the variables. P values more than the significance level of 0.05 led to rejection of a relationship between the variables thus implying that changes in the dependent variables are due to chance and not the independent variable. From the study finding in table 4.2 above, gender does not influence customer loyalty as indicated by P value (0.734) which is more than the significance level of 0.05

4.2.2 Occupation of the respondents and Customer Loyalty

The occupation of the respondents who participated in the study is illustrated in table 4.3 below.

Table 4.3: Occupation of the respondents

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees in the banking industry</td>
<td>78</td>
<td>32.1</td>
</tr>
<tr>
<td>Employees of other organization</td>
<td>84</td>
<td>38.8</td>
</tr>
<tr>
<td>Self-employment</td>
<td>54</td>
<td>29.1</td>
</tr>
<tr>
<td>Total</td>
<td>216</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The study findings in table 4.3 indicate that the respondents in the study had different occupations with 38.8% working in non-banking industry, 32.1% working in the banking industry and 29.1% were self-employed. The study further employed Chi-Square Tests to
determine whether occupation of the respondents hand any influence on customer loyalty.

Table below shows the study findings.

Table 4.4: Chi-Square Tests for influence of occupation on customer loyalty

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>7.013</td>
<td>4</td>
<td>.814</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>7.312</td>
<td>4</td>
<td>.802</td>
</tr>
<tr>
<td>Linear-by-Linear...</td>
<td>1.324</td>
<td>1</td>
<td>.253</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>174</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 11.15.

The study findings in the table above show that occupation has no influence on customer loyalty as indicated by P value (0.814) which is more than the significance level of 0.05.

4.2.3 Duration of Membership and Customer Loyalty

The clients were asked to indicate the duration of banking with Cooperative Bank of Kenya. Figure 4.2 shows the study findings
Figure 4.2: Duration of membership with the bank

The study findings indicate that majority (37.5%) of the respondents had been members of Cooperative Bank of Kenya for periods between 1 and 5 years. In order to establish the relationship between duration of membership and customer loyalty, the Chi Square Test result in table 4.6 below were generated.

Table 4.5: Chi-Square Tests for influence of duration of membership and customer loyalty

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>5.303a</td>
<td>4</td>
<td>.004</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>5.254</td>
<td>4</td>
<td>.004</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>.580</td>
<td>1</td>
<td>.001</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>174</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 11.13.
The study findings in table 4.5 indicate that the duration of membership in a bank influences customer loyalty. The relationship is shown by the P value (0.004) which was less than the significance level of 0.05.

The study findings revealed that customer loyalty in the banking industry is not affected by demographic factors such as gender and occupation. According to Kotler and Armstrong (1991), a marketer must know and understand demographics factors such as age, income, sex, occupation, education, family size, and the like to assess the size, reach and efficiency of the market. However the study findings find no association between loyalty and demographics factors.

4.3 Factors Affecting Customer Loyalty in the Banking Industry

The main objective of the study was to determine the factors influencing customer loyalty in the banking industry. The following subsections presents the findings of the study.

4.3.1 The Level of Respondents’ Loyalty to Cooperative Bank of Kenya

Prior to establishment of the factors that affect customer loyalty in the banking industry, the study established the level of level of respondents’ loyalty to their banks. The respondents were asked to rate their level of loyalty towards products and services offered by the Cooperative Bank of Kenya. Figure illustrates the study findings.
The study finding in figure 4.3 indicates that majority of the respondents (40.8%) have high levels of loyalty towards products and services offered by the Cooperative Bank of Kenya while 31.5% registered moderate loyalty, 16.1% low level of loyalty, and 11.6% had high levels of loyalty.

4.3.2 Quality of Banks Service and Customer Loyalty

The respondents were requested to indicate the extent to which the level of banks service quality affect their loyalty towards banks products. Figure illustrates the study findings.
From the study findings in figure 4.4, majority (89.4%) of the respondents indicated that quality of banks service affect customer loyalty to a very great extent while 10.6% said that quality of banks service affect customer loyalty to a great extent. The findings reveal that quality of banks service is a great determinant of customer affect customer loyalty in the banking industry.

4.3.3 Customer Service and Customer Loyalty

The study sought to establish the relationship between customer service and customer loyalty. The respondents were asked to indicate the extent to which the following aspects of customer service listed in table 4.6 affect their loyalty to the banks products. The response was rated on a scale whereby on which 1=no extent at all, 2= little extent, 3=moderate extent, 4= great extent and 5=very great extent. Mean and standard deviation were used to analyse the response
Table 4.6: The influence of Customer service on customer loyalty

<table>
<thead>
<tr>
<th>Aspects of Customer service</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit services</td>
<td>4.062</td>
<td>0.7472</td>
</tr>
<tr>
<td>Service delivery</td>
<td>4.167</td>
<td>0.7215</td>
</tr>
<tr>
<td>Personal service</td>
<td>4.056</td>
<td>0.7314</td>
</tr>
<tr>
<td>Service quality</td>
<td>4.070</td>
<td>0.6934</td>
</tr>
<tr>
<td>Service value</td>
<td>4.281</td>
<td>0.6891</td>
</tr>
</tbody>
</table>

The responses with mean close to 1 were rated as no extent at all, 2 little extent, 3 moderate extent, 4 great extent and 5 very great extent. From the study findings in table 4.6 above, majority of the respondents indicated that customer loyalty is influenced by credit services (M=4.062), service delivery (M=4.167), personal service (M=4.056), service quality (M=4.070), and service value (M=4.281). The study findings revealed that customer service has effect on customer loyalty to the banks.

4.3.4 Brand image and Customer Loyalty

The respondents were asked to indicate the extent to which they agree with the following statements on the influence of brand image to customer loyalty. The responses were rated on a five point Likert scale where: 1-Strongly Disagree 2 - Disagree 3- Neutral 4- Agree and 5- Strongly Agree. The mean and standard deviations were generated from SPSS and are as illustrated in table 4.7.
**Table 4.7: The influence of brand image on customer loyalty**

<table>
<thead>
<tr>
<th>Statement on the influence of brand image on customer loyalty</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers like the banks brand of products</td>
<td>4.008</td>
<td>0.5908</td>
</tr>
<tr>
<td>The brands relate well with the customers’ needs</td>
<td>3.967</td>
<td>0.7335</td>
</tr>
<tr>
<td>The brands are attractive as compared to those from other bank companies</td>
<td>3.951</td>
<td>0.7392</td>
</tr>
<tr>
<td>The brand offered use enable the company to achieve its goal</td>
<td>3.837</td>
<td>0.6944</td>
</tr>
<tr>
<td>The brands enhance the company’s social identity</td>
<td>4.210</td>
<td>0.2518</td>
</tr>
</tbody>
</table>

Majority of the respondents agreed that the brands enhance the company’s social identity (M=4.210), customers like the banks brand of products (M=4.008), the brands relate well with the customers’ needs (M=3.967), the brands are attractive as compared to those from other bank companies (M=3.951), and study registered moderate agreement to the statement that brand offered use enable the bank to achieve its goal (M=3.837). The findings show that brand image influences customer loyalty to the banks.

**4.3.5 Price fairness and Customer Loyalty**

The respondents were asked to indicate the extent to which perceived price fairness influence customer loyalty of the bank products. The response is illustrated in figure 4.5 below.
From the study findings in figure 4.5 above, majority (91.5%) of the respondents indicated that perceived price fairness influence customer loyalty of the bank products to great extent. The study findings therefore reveal a relationship between perceived price fairness and customer loyalty.

The respondents were further asked to indicate their level agreement with the following statements that relate to perceived fairness and its effect on customer loyalty at the Cooperative Bank of Kenya. The responses were rated on a five point Likert scale where: 1-Strongly Disagree 2 - Disagree 3- Neutral 4- Agree and 5- Strongly Agree. The mean and standard deviations were computed and are as illustrated in table 4.8 below.
Table 4.8: Influence of perceived price on customer loyalty

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am totally satisfied with the prices offered by Cooperative Bank of Kenya</td>
<td>3.294</td>
<td>0.7878</td>
</tr>
<tr>
<td>Price is an indicator of the quality of service</td>
<td>4.224</td>
<td>0.6952</td>
</tr>
<tr>
<td>Cooperative Bank of Kenya offers cheap and affordable products as compared to other financial institutions</td>
<td>3.845</td>
<td>0.6751</td>
</tr>
</tbody>
</table>

Majority of the respondents agreed that Price is an indicator of the quality of service (M=4.224) and Cooperative Bank of Kenya offers cheap and affordable products as compared to other financial institutions (M=3.845). However majority of the respondents moderately agreed to the statement that they are totally satisfied with the prices offered by Cooperative Bank of Kenya (M=3.294). The study findings also indicate that there is a relationship between perceived price fairness and customer loyalty to the bank.

4.3.6 Product mix and customer loyalty

The study sought to establish the effect of product mix on customer loyalty. The respondents were asked to indicate their level agreement with the following statements that relate to the effect of product mix on customer loyalty. The responses were rated on a five point Likert scale where: 1-Strongly Disagree 2 - Disagree 3- Neutral 4- Agree and 5- Strongly Agree. The mean and standard deviations were calculated and are as illustrated in table 4.9 below.
Table 4.9: Product mix and customer loyalty

<table>
<thead>
<tr>
<th>Statements that relate to the effect of product mix on customer loyalty</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The product match well to the changing environment</td>
<td>3.835</td>
<td>0.6495</td>
</tr>
<tr>
<td>The company has a wide range of products to suit different cadre of people</td>
<td>4.011</td>
<td>0.8345</td>
</tr>
<tr>
<td>The products are able to meet most of my needs</td>
<td>3.763</td>
<td>0.7240</td>
</tr>
<tr>
<td>The company offers innovative and flexible products</td>
<td>3.756</td>
<td>0.4258</td>
</tr>
<tr>
<td>The company offers cheap and affordable products</td>
<td>3.889</td>
<td>0.2870</td>
</tr>
<tr>
<td>The company offers more customized products than its competitors</td>
<td>3.037</td>
<td>0.9402</td>
</tr>
<tr>
<td>The company offers high quality state of the art technology oriented products</td>
<td>3.259</td>
<td>0.9290</td>
</tr>
<tr>
<td>The product mix in a bank influences customer loyalty</td>
<td>4.015</td>
<td>0.2461</td>
</tr>
</tbody>
</table>

From the study findings in table 4.9, majority of the respondents agreed that the product mix in a bank influences customer loyalty (M=4.015), the company has a wide range of products to suit different cadre of people (M=4.011), the product match well to the changing environment (M=3.835), and the company offers cheap and affordable products (M=3.889).

The respondents further agreed that the products are able to meet most of my needs (M=3.763) and the company offers innovative and flexible products (M=3.756). The findings shows a moderate agreement to the statements that the company offers high quality state of the art technology oriented products (M=3.259) and that the company
offers more customized products than its competitors (M=3.037). The study findings indicate that product mix has effect on customer loyalty to a bank.

4.3.7 Customer perception of the bank products and customer loyalty

The respondents were asked whether their perception of the bank products and services influences their loyalty to the bank. Figure illustrates the study findings.

Figure 4.6: The influence of customer perception on customer loyalty

From the study finding in figure 4.6, majority (95.0%) of the respondents agreed that their perception of the bank products and services influences their loyalty to the bank. The respondents were further requested to indicate their level agreement with the following statements that relate to customer loyalty. Mean and standard deviation are shown in table 4.10 below.
Table 10: Factors affecting customer loyalty

<table>
<thead>
<tr>
<th>Statements that relate to customer loyalty</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank products are highly visible</td>
<td>4.108</td>
<td>0.4895</td>
</tr>
<tr>
<td>The bank has different products</td>
<td>4.032</td>
<td>0.2010</td>
</tr>
<tr>
<td>The bank is well trusted</td>
<td>3.956</td>
<td>0.2676</td>
</tr>
<tr>
<td>The bank provide good customer service</td>
<td>3.705</td>
<td>0.0399</td>
</tr>
<tr>
<td>The bank products are relevant and meet my needs and provide suitable products</td>
<td>3.886</td>
<td>0.0596</td>
</tr>
<tr>
<td>The bank companies take time to understand customer needs</td>
<td>3.643</td>
<td>0.3377</td>
</tr>
</tbody>
</table>

From the study findings in table 4.10, majority of the respondents agreed that The bank products are highly visible (M=4.108) the bank has different products (M=4.032) the bank is well trusted (M=3.956) the bank provide good customer service (M=3.705) the bank products are relevant and meet my needs (M=3.886) the bank companies take time to understand customer needs and provide suitable products (M=3.643). The study findings indicate that customer perception has influence on customer loyalty.

4.3.8 Additional factors influencing customer loyalty towards the banks products and services

The respondents were asked to indicate their level agreement with the following statements with regard to various factors affecting customer service in the banking industry in Kenya. Mean and standard deviation are shown in table 4.11.
Table 4.11: Factors affecting customer loyalty

<table>
<thead>
<tr>
<th>Factors</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The banks products have been able to maintain customer loyalty through customer satisfaction</td>
<td>4.017</td>
<td>0.2274</td>
</tr>
<tr>
<td>Advertising affect customer loyalty to the banks brands</td>
<td>4.036</td>
<td>0.1501</td>
</tr>
<tr>
<td>Service value affect customer loyalty to the banks brands</td>
<td>4.051</td>
<td>0.2592</td>
</tr>
<tr>
<td>Customer trust on the brand affect their loyalty to the banks brands</td>
<td>4.048</td>
<td>0.1715</td>
</tr>
</tbody>
</table>

From the study findings in table 4.11, majority of the respondents agreed that the banks products have been able to maintain customer loyalty through customer satisfaction (M=4.017), advertising affect customer loyalty to the banks brands (M=4.036), service value affect customer loyalty to the banks brands (M=4.051), and customer trust on the brand affect their loyalty to the banks brands (M=4.048).

4.4 Effective measure to build customer loyalty at Cooperative Bank of Kenya

The study established a list of measures that Cooperative Bank of Kenya and other banks can take to build customer loyalty. The measures to build customer loyalty in the banking industry include, creation of a cordial relationship with the customer, discovery of what the customer values most, clear communication of the organizational, investigating the reasons why customers leave the bank, measures the bank performance, asking for
referrals, making loyalty-building a team effort, meeting customers' expectations, creating a feedback system for the customers and handling customer complaints effectively, engaging customers in a two-way dialogue, conducting a survey of customers loyalty, creating system for collecting, linking customer loyalty to expected business outcomes and applying statistical methods to predict future customer loyalty.

Banks should create a cordial relationship with the customer. First impressions create expectations, and expectations die hard. Prospects making their first contact with your company should immediately decide that they are in the right place. A few glitches later on in the relationship will be brushed aside as exceptions to the rule that the customer has invented.

Banks should discover what the customer values most. All customers are not created equal. Some customers value relationships and personal interactions. They want to be known and valued on a personal level. Others value efficiency, cost and time savings. Still others value comfort and avoiding pain at all costs. The sooner the bank can discover what a customer values, the sooner it can deliver it and build loyalty.

The banks should build customer loyalty by clear communication of the organizational values. All of your interactions with customers must answer two questions: What do they really buy from my company, and why should they buy it from my company instead of a competitor? Customers who are reminded of the bank’s business value remain loyal.
The bank should also communicate in ways to which your customer is receptive. Some customers like phone calls, while others don’t want to be bothered. Some customers prefer email, while others are drowning in it. Some customers want just the facts, while others enjoy some entertainment, too. The bank should provide multiple channels for customers to deliver their feedback.

The banks need to know why customers leave by conducting comprehensive investigation. Good customer relation management shines a spotlight on customer departures, searching for ways to improve and problems to fix. Besides the bank, should measure all their actions. If a bank measures its activities, chances are it can improve it. Measure customer-contact frequency, referrals, contact-to-sale conversion rates, contacts per month, customer satisfaction as revealed by surveys, and every metric that bank can think of that has a bearing on its business.

Banks need to always ask for referrals. Banks are supposed to manage the relationship with the customer. But too often, banks let customers manage it by leaving the timing of referrals up to them. Another measure is making loyalty-building a team effort. Everyone from the receptionist to the delivery person is responsible for nurturing customer loyalty. It is important to convey that message to everyone in your organization and teach them how to contribute.

In order to build customer loyalty, banks should meet customers' expectations. Failed expectations lead to customer dissatisfaction. Most often, customers feel let down in the
area of customer service, not product quality. Banks must know their customers’ expectations and improve your business’s processes in order to meet them.

The banks need to handle customer complaints effectively. The bank can turn complaints into opportunities as quickly as possible. Customers tend to become more loyal when their complaints are handled immediately and effectively. The banks need to engage customers in a two-way dialogue. Bank can create a peer relationship with customers by admitting where the bank needs to improve and enlisting their help to solve the problems. A customer who makes such investments in a bank is more loyal than one who does not.

Customer loyalty can enhanced through a survey of customers and paying attention to the responses. Survey research can be used to identify or solve problems. Banks should keep surveys simple, unbiased and short. Banks can also establish customer loyalty by creating system for collecting, analyzing and acting upon all customer feedback. Modern technology can be applied to systematize the collection, analysis and use of customer feedback. The system should build a dialogue with customers.

Another way through which banks can build customer loyalty is linking customer loyalty to expected business outcomes. Banks can determine whether to measure their engagement program’s outcome in terms of customer satisfaction. Moreover, banks can apply analytical procedures to predict future loyalty. The measurements taken in bank’s surveys and engagement program can be analyzed statistically to predict the likelihood that a customer will continue to buy or refer new customers. Predictive analysis can also correlate customer loyalty to profitability and other expected business outcomes.
CHAPTER FIVE: SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the study findings, conclusion of the study and recommendations drawn from the study findings. The chapter is based on the study objectives which were to determine the factors influencing customer loyalty in the banking industry and recommend how Cooperative Bank of Kenya can adopt effective measure to build customer loyalty.

5.2 Summary of the study findings

The main objective of the study was to determine the factors influencing customer loyalty in the banking industry. The study established that customer loyalty is influenced by quality of banks customer service, brand image, price fairness, product mix, customer perception of the bank products, effectiveness advertisement, service value and establishment of customer trust on bank services. However, the study established that customer loyalty is not influenced by demographic factors such as gender and occupation.

The second objective of the study was to determine effective measures to build customer loyalty in the banking industry. The study established a list of measures to build customer loyalty. The measures include, creation of a cordial relationship with the customer, discovery of what the customer values most, clear communication in the organization,
investigating the reasons why customers leave the bank, and measure the performance of the bank, asking for referrals.

Additional measures to build customer loyalty include: making loyalty-building a team effort, meeting customers' expectations, creating a feedback system for the customers and handling customer complaints effectively, engaging customers in a two-way dialogue, conducting a survey of customers’ loyalty, creating system for collecting, linking customer loyalty to expected business outcomes and applying statistical methods to predict future customer loyalty.

5.3 Conclusion

The study concludes that customer loyalty is affected by product/service related factors, management related factors and customer related factors. The product/service related factors include the quality of bank services, the brand image of bank products, price fairness and product mix.

The main management factor that affects customer loyalty is customer service management. An effective customer service enhances customer loyalty. Banks with clear communication strategies with clients enhances their loyalty. Loyalty is also dependent on effective an immediate handling of customer complaints. In order for banks to gain loyalty of their customers, a cordial relationship is important hence the need for efficient customer service management.
The customer related factors include customer perception of banks products and their trust in the banking services. A customer whose perception on the banking products is positive remains loyal. Contrary, a customer holding negative perception of banking services does not remain loyal to the bank. The study also concludes that a customer who builds trust in the bank’s product and services remains loyal to the bank. When customers do not trust the bank’s products and services, they do not remain loyal to the bank.

The study concludes that customer loyalty is not influenced by demographic factors such as gender and occupation. Therefore, a customer will not remain loyal to the bank due to factors like age, gender, marital status, occupation and level of education.

5.4 Recommendations of the study

This sub-section presents recommendations for policy intervention and recommendations for further studies.

5.4.3 Recommendations for policy intervention

The recommends a comprehensive survey of customer related factors prior to formulation of strategies to enhance customer loyalty. The survey is important in determining the changes and trends in customer retention parameters hence forming a basis of building customer loyalty.

The study recommends that customer retention policies should incorporate the following measures in an effort to build customer loyalty. The measures should include: creation of
a cordial relationship with the customer, discovery of what the customer values most, clear communication of the organizational, investigating the reasons why customers leave the bank and asking for referrals.

The study also recommend consideration of the following additional measures when building customer loyalty; making loyalty-building a team effort, meeting customers' expectations, creating a feedback system for the customers and handling customer complaints effectively, engaging customers in a two-way dialogue, conducting a survey of customers’ loyalty, creating system for correcting, linking customer loyalty to expected business outcomes and applying statistical methods to predict future customer loyalty.

5.3.2 Recommendation for further studies

The study recommends further research on effective methods that banks can use to measure and predict customer loyalty. The analysis of effective methods that banks can use to measure and predict customer loyalty will compliment this study by coming up with appropriate model that incorporates the identified factors that affect customer loyalty in prediction of customer loyalty.
REFERENCES


*Journal of marketing*, 1990, Vol. 54, pp. 82–91


Appendix 1: Questionnaire

Kindly answer the following questions by filling the spaces provided.

SECTION A: GENERAL INFORMATION

1. Kindly indicate your gender
   Male [ ]       Female [ ]

2. What is your occupation?
   …………………………………………………

3. Years of banking with cooperative bank of Kenya (Tick as applicable)
   Less than 1 year [ ]       6-10 years [ ]
   1-5 years [ ]           Over 10 years [ ]

SECTION B: CUSTOMER LOYALTY

1. How would you rate your loyalty towards products and services offered by the Cooperative Bank of Kenya?
   Very high [ ]       High [ ]
   Moderate high [ ]   Low [ ]
   Very low [ ]

2. What extent do you agree with the following statements that relate to customer loyalty towards Cooperative Bank of Kenya products? Use a scale of 1 to 5 where 1 is strongly disagree and 5 is strongly agree

<table>
<thead>
<tr>
<th>Statements that relate to customer loyalty</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The banks products are highly visible</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank has different products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3. What extent does the following aspects affect customer loyalty towards the banks products and services? Use a scale of 1 to 5 where 1 is to a no extent and 5 is to very great extent.

<table>
<thead>
<tr>
<th>Factors influencing customer loyalty towards the banks products and services</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer trust on the brand</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand image</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality of the product</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others, (Specify……………………………………………………………….)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. To what extent does the level of banks service quality affect your bank loyalty towards banks products
5. Customer service consists of several services designed to aid in the sale of a product as well as customer loyalty. To what extent do the following aspects of customer service affect your loyalty to the banks products? Use a scale of 1 to 5 where 1 is to a no extent and 5 is to very great extent.

<table>
<thead>
<tr>
<th>Factors of Customer service</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service delivery</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service quality</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others, (Specify..................)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. What extent do you agree with the following statements with regard to various factors affecting customer service in the banking industry in Nairobi? Use a scale of 1 to 5 where 1 is to a no extent and 5 is to very great extent.

<table>
<thead>
<tr>
<th>Statement about factors affecting customer loyalty</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The quality of service at the bank companies has maintained the level of customer loyalty</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The banks products have been able to maintain customer loyalty through customer satisfaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Brand image affect customer loyalty of the banks brands to a great extent

Service quality

Service value

7. What extent do you agree with the following statements on the influence of brand image to customer loyalty? Use a scale of 1 to 5 where 1 is to a no extent and 5 is to very great extent

<table>
<thead>
<tr>
<th>Statement on the influence of brand image on customer loyalty</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>customers like the banks brand of products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The brands relate well with the customers’ needs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The brands are attractive as compared to those from other bank companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The brand offered use enable the company to achieve it’s goal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The brands enhance the company’s social identity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. What is your level of agreement with the following statements that relate to the effect of product mix on customer loyalty? Use a scale of 1 to 5 where 1 is to a no extent and 5 is to very great extent

<table>
<thead>
<tr>
<th>Statements that relate to the effect of product mix on customer loyalty</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The product match well to the changing environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The company has a wide range of products to suit different cadre of people</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The products are able to meet most of my needs

The company offers innovative and flexible products

The company offers cheap and affordable products

The company offers more customized products than its competitors

The company offers high quality state of the art technology oriented products

9. To what extent does perceived price fairness influence customer loyalty of the bank products?

   Very great extent [  ]
   Great extent [  ]
   Moderate extent [  ]
   Little extent [  ]
   Not at all [  ]

10. What is your level of agreement with the following statements that relate to perceived fairness and its effect on customer loyalty at the company? Use a scale of 1 to 5 where 1 is to a no extent and 5 is to very great extent

   Am totally satisfied with the prices offered by the company

   Price is an indicator of the quality of service

   The company offers cheap and affordable products as compared to other financial institutions

   1  2  3  4  5