CUSTOMER RETENTION STRATEGIES ADOPTED BY COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

This is my original work and has not been presented for a study in any University or college.

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DEDICATION

This project is dedicated to my parents the late Mr. Christopher Peter Ogong`o and Mrs. Mary Ogong`o and my daughter Mary Imani for their support, inspiration, encouragement and understanding throughout my academic journey.

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ABSTRACT

Customer retention has gained increased value among both goods and service providing firms. However although extensive research exist on the concept of customer retention and its measures and instruments, studies and research on how professional service firms retain their customers remain limited. With the improvement of building societies into banking institutions; there has been frequent switching of customers from one bank to another due to good competitive advantages like low interest rates on loans and a reduction in the ledger fees charged by the banks. Further, customer awareness and knowledge levels have appreciated dramatically with some of them raising doubts about the ability of banks to look out for their financial wellness. This study sought to establish the strategies adopted by commercial banks in Kenya to enhance customer retention and to determine the level of customer retention among commercial banks in Kenya. The study adopted cross-sectional research design. A census of all the 44 commercial banks operating in Nairobi as at December 2013 was used. Data was collected using questionnaires which were administered through drop and pick method. Data was analyzed using descriptive statistics, regression and correlation analysis to establish the relationship between the variables. The study found out that level of service quality in the bank was high. The study also found out that customers were satisfied with convenience of branch location, prices (charges/fees/interest), access to electronic transactions, banks effort to inform customers about new products and services and accuracy of banking records. In addition, the study found out that customers were satisfied with efficiency of customer service and accuracy of transactions. The study also found out that customers were satisfied with the fact that the bank had efficient service, listens and is sensitive to customers' needs. Customers were not satisfied with many branch locations that the bank had. The study finally found out that customers perceived the image of the bank as trustworthy, reliable, stable, distinctive/unique compared to others, widely-known and involved in the community. The study recommends that banks should streamline processes with automated reconciliations and keep their records up-to-date to enhance accuracy of banking records, increasing efficiency and effectiveness. The study also recommended that banks should be involved in more corporate social responsibility activities in order to involve the community and even empower the community. This will enable banks have a good image. In addition, organizing employees into quality circles can be an effective way to identify and address problems.

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ABBREVIATIONS

CBK	-	Central Bank of Kenya
CRBs	-	Credit Reference Bureaus
DTMs	-	Deposit-Taking Microfinance Institutions
MFC	-	Mortgage Finance Company
MFI	-	Micro Finance Institutions
MPC	-	Monetary Policy Committee
SERVQUAL	-	Service Quality
SPSS	-	Statistical Package for Social Sciences
WOM	-	Word Of Mouth

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Customer retention has gained increased value among both goods and service providing firms. However although extensive research exist on the concept of customer retention and its measures and instruments, studies and research on how professional service firms retain their customers remain limited. The strategies employed by the firms are highly customized to each individual customer (Gummesson, 2002). Further the findings from this study indicate 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. The findings further imply that the 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).

The importance of retaining customers through getting them satisfied cannot be overemphasized. Rowley and Dawes (2000) cited the canonical postulation of Dust and Zahorik (1993) that the financial implications of attracting new customers may be five times as costly as keeping existing customers. According to Cannon and Cannon (2005), it normally costs more to attract a new customer than to retain current ones and the best way to keep customers is to satisfy them. The other implication of retaining your customers is that satisfied customers do not only repeat purchases but propagate favourable word of mouth (WOM) to others about the company and product and pay less attention to the competing brands and advertising.

There has been intensified the competition between banks as customers easily compare offers provided by different banks. This 'frictionless commerce' tends to raise customers' expectations about services and products and makes them more prone to switching to other service providers. In order to minimize threats and maximize opportunities, banks should actively retain customers in the virtual place. Factors affecting customer retention have not been investigated in detail from an Internet-banking stance. Customer satisfaction has been empirically validated to have a relationship with customer retention in service sector. Customer commitment, however, in a business relationship goes beyond satisfaction. In a setting of low-customer contact and mass service, trust is an important driver of customer retention. Recent studies identify that the switching cost, the interpersonal relationship, the attractiveness of the alternatives and the recovery of the service are establishing the switching barrier and have a large effect on the customer retention (Gefen, 2010).

1.1.1 Concept of strategy

Strategy refers to the framework which guides those choices that determine the nature and direction of an organization (Ganesh, 2010). Ultimately, this boils down to selecting products (or services) to offer and the markets in which to offer them. According to Dawkins and Reichheld (2004), it is through strategic management that a firm will be able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment. He further argues that this can be done by firstly, positioning of the firm through strategy and capability planning in its rightful competitiveness, and secondly, use of real time response through issue management and thirdly, Systematic management of resistance during strategic implementation.

The strategy of an organization involves matching its corporate objectives and its available resources. In this development of strategy, managers are concerned with reconciling the business the organization is in with the allocation of resources. This allocation process is concerned with the general purposes of an organization, whether it is part of the grand plan, the overall objectives or a ‘strategy’ designed to keep the organization in business (Story, 2007).

Viewing strategy simply as a grand plan an overarching, never-to-be-altered plan of action might be inappropriate. A strategy can be grand once implemented, but the original visions might or might not remain standing by the time the strategy decision and implementation processes are completed (Gefen, 2010). Despite thoughtful attempts over the decades to define strategy, a rash of manifestos continues to emerge that purport to redefine the term.

1.1.2 Customer retention

Customer retention is a strategy whose objective is to retain a company’s customers and to retain the revenue contribution. Primarily, it aims at preventing customers from defecting to alternative brands or going to competition. According to Magson (2008) satisfied customers remain loyal and talk favorably to others about the company and its products. Customer retention and loyalty will depend on the levels of satisfaction that the customers receive when either they buy or use the products or services. This will highly depend on the quality and the customer care services offered by the company.

It is commonly believed that 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. 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, 2009). 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, 2009).

The key factors influencing customers' selection of a bank include the range of services, rates, fees and prices charged (Abratt and Russell, 2009). It is apparent that superior service, alone, is not sufficient to satisfy customers. Prices are essential, if not more important than service and relationship quality. Furthermore, service excellence, meeting client needs, and providing innovative products are essential to succeed in the banking industry. Most private banks claim that creating and maintaining customer relationships are important to them and they are aware of the positive values that relationships provide. While there has been several studies emphasizing the significance of customer retention in the banking industry, there has been little empirical research examining the constructs that could lead to customer retention. This paper examined the constructs that impact consumers' decision to stay with or leave their current banks in Kenya. In addition, the paper explored whether there was any association between consumers' demographic characteristics (i.e. age, gender, educational level and income) and loyalty decisions.

1.1.3 Banking industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the

Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

As of now, the banking sector comprised the Central Bank of Kenya as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage finance company - MFC), 4 representative offices of foreign banks, 6 Deposit-Taking Microfinance Institutions (DTMs), 118 Forex Bureaus and 2 Credit Reference Bureaus (CRBs). Out of the 44 banking institutions, 31 locally owned banks comprise 3 with public shareholding and 28 privately owned while 13 are foreign owned as shown in Chart 1. The 6 DTMs, 2 CRBs and 118 forex bureaus are privately owned. The foreign owned financial institutions comprise of 9 locally incorporated foreign banks and 4 branches of foreign incorporated banks. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market.

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 majority of Kenyan banks has non-domestic owners, and is not very diversified in terms of the products and services they offer. This suggests that the Kenyan banking industry has 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, 2009). One strategic focus that banks can implement to remain competitive would be to retain as many customers as possible.

1.1.4 Commercial banks in Kenya

As at 31st December 2013, there were 43 commercial banks and 1 mortgage finance company. In addition, there was 4 licensed deposit taking microfinance institution and 130 foreign exchange bureaus (CBK, 2013). The banking industry with asset base of over Kshs. 1.3 trillion is the largest sector in the Kenyan financial sector. With a limited and under developed capital market, the banking sector plays pivotal role in intermediation process between savers and investors. The banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya (CBK).

In recent times there has been serious contention between the Central Bank of Kenya Monetary Policy Committee (MPC) and the players in the banking industry on the high spread between lending and deposit rates. Such high spread is indicative of intermediation inefficiencies (Sologoub, 2006). In the Kenya context, the significant reforms initiatives undertaken, such as operationalization of credit reference bureaus, payments system improvements, operationalization of Microfinance Act and activation of horizontal repos presents opportunities for enhanced banking sector performance. These reforms are hinged on three key pillars of the Kenyan financial sector as espoused in the Vision 2030 (the Government Economic Blue Print) - Efficiency, Stability and Access. Thus, for Kenya to realize Vision 2030, the banking sector‘s efficiency is a critical element that remains the cornerstone of the targeted economic growth trajectory. In one of his speech at official branch opening of a Kenyan bank, the Governor of the Central Bank of Kenya, appealing to banks on service delivery states: ...explore ways of enhancing efficiency in service delivery. By enhancing efficiency banks are capable of offering more affordable banking services. This has the potential of drawing a larger number of Kenyans to the financial system resulting in an expandable banking clientele. The banks offer savings account, current accounts, fixed deposit accounts, corporate accounts, foreign currency denominated accounts.

1.2 Research Problem

Customer retention is increasingly being seen as an important managerial issue, especially in the context of saturated market or lower growth of the number of new customers. It has also been acknowledged as a key objective of relationship marketing, primarily because of its potential in delivering superior relationship economics, i.e. it costs less to retain than to acquire new customers. The factors that drive a long-term relationship are complex, with Story (2007) arguing that even customer satisfaction indices are poor indicators for businesses to predict the future behavior of customers.

With the improvement of building societies into banking institutions; there has been frequent switching of customers from one bank to the other due to good competitive advantages like low interest rates on loans and a reduction in the ledger fees charged by the banks. Micro Finance Institutions (MFI) and Saccos that offer banking services have also put pressure on big banks on customer retention due to their reduced service fees. Further, customer awareness and knowledge levels have appreciated dramatically with some of them raising doubts about the ability of banks to look out for their financial wellness. In this regard, banks are rethinking on what, where and how they can serve the increasingly informed and demanding customers.

Local studies have been done on customer retention. For instance, 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. The study however narrowed down on only one determinant. On the other hand Wachira (2010) did a study on customer retention strategies adopted by mobile telecom companies in Kenya while Karitie (2011) conducted an analysis of the effectiveness of customer retention strategies in Equity Bank Kenya. Further, Simiyu (2010) did a study on factors affecting customer retention in oil industry case study Total Kenya Ltd while Mutai (2013) did a study on the factors influencing customer retention among corporate companies utilizing mobile telephone services in Kenya. However, the study was only in one bank. No study has been done on the determinants customer retention among commercial banks in Kenya. This study therefore sought to address the following question: what are the determinants of customer retention among commercial banks in Kenya?

1.3 Research objectives

The objectives of this study were:

i. To establish the strategies adopted by commercial banks in Kenya to enhance customer retention
ii. To determine the level of customer retention among commercial banks in Kenya

1.4 Value of the study

This study will be invaluable from a theoretical standpoint in that it will provide information on the field of customer retention. The conclusions and recommendations arrived at will be a useful theoretical underpinning on the determinants customer retention. The study focuses on the topic of customer retention, 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 study given that it is not focusing on a particular bank.

From a practical perspective, the findings of this research will provide vital information to facilitate the management of commercial banks in relation to the issues that need to be addressed to retain customers. This will enable them beat the competition experienced from other banks by designing appropriate methods and strategies geared towards business sustainability. The managers will be able to understand the factors that need to be put in place to be able to obtain adequate and quality services to their customers. They will be adequately informed on what strategies to be adopted by the bank to achieve good customer retention strategies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this second chapter, relevant literature information that is related and consistent with the objectives of the study is reviewed. Important issues and practical problems are brought out and critically examined so as to determine the current facts. This section is vital as it determines the information that link the current study with past studies and what future studies will still need to explore so as to improve knowledge.

2.2 Theoretical Foundation of the Study

Two main approaches to strategy have emerged over time: the Design School and the Process School. Under the Design School of thought strategy formulation is a formal process that is de-linked from strategy implementation. Strategy is carefully crafted by senior management and then implementation begins, with the aim of maximizing profits of the organisation. Gummesson (2002) a major proponent of the design school, defines strategy as ‘the determination of basic, long term goals of the enterprise, and the adoption of courses of action and allocation of resources necessary for those goals. This definition clearly shows strategy formulation as separate from strategy implementation.

It can be argued from a systems theory approach to strategic management by Dwyer (1989) that many of the reasons for strategies failure may be attributed to the “successive dominance of different reductionism approaches to strategic management. Such partial approaches to strategic management ignore the complex, embedded and dynamic nature of today’s organization. Taking the system approach in strategy implementation helps managers of organizations to have to understand the customer, better predict environmental reaction, estimate resource competence, and coordinate strategic activities, obtain management commitment, estimate time requirements, ability to follow the plan, manage the strategic change and ensure effective communication.

Co-evolutionary theory, according to DeSouza (1992), indicates that as firms grow and evolve from small to larger and multidivisional organizations, the strategy implementation methods also evolve simultaneously. The various strategy implementation models are meant to meet the changing needs of firms as they evolve through various stages of the organizational life cycle. In contrast to the earlier descriptive models, this model is more prescriptive with an, albeit limited, empirical basis.

The preeminent theory of customer satisfaction is the disconfirmation of the expectancy paradigm described by Oliver in 1980 (Caruana, 2002). This theory suggests that the level of customer satisfaction may be established by comparing previously held expectations with perceived product performance. If performance exceeds expectations, a customer experiences positive confirmation and is satisfied, reinforcing his or her willingness to use the product or service again (Cannon and Cannon, 2005). On the contrary, if performance fails to meet a customer's expectations, negative satisfaction occurs.

2.3 Customer satisfaction and customer retention

Customer service literature emerged in the early 1980's in the form of qualitative service research that identified and illustrated customer satisfaction and service quality. A significant expansion in service literature appeared in the 1990's especially in 1994, when a number of articles were published that focused on customer satisfaction and service quality. Studies of customer behavior placed emphasis on customer satisfaction as the heart of the post purchase stage. Because positive customer satisfaction frequently leads to repeat purchases and constructive word-of-mouth advertising, this concept is vital to marketers. In saturated markets, firms have found that customer satisfaction is one of the most precious assets. Customer satisfaction serves as a deterrent to customer disloyalty, leading firms to customer retention. This relationship is explained by Rowley and Dawes (2000), who stated that customer satisfaction drives retention rates, leading to enhanced market share.

Reichheld and Sasser (1996) stated that the longer a firm retains a customer, the more profit the customer generates. This is a result of numerous factors, including the effects of the higher costs of attracting new customers, increased cost of purchases over time, expanded number of purchases, a mutual understanding between the customer and the firm, and positive word-of-mouth.

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. 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.

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. 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. Customer retention can be measured by the length of time as a customer. By analyzing information about a customer's tenure, the company is able to forecast customer duration and whether or not the customer is likely to stay loyal to the company. Customer retention could help a company increase its profitability and revenues as well as generate referred customers in the future (Zeithaml et al., 2009).

The overwhelming argument for customer retention is that it is cheaper to retain than to acquire new customers. Payne and Frow (2008) illustrated how an additional £5.5 million increase in expenditure, when directed at increasing the number of existing customers, could result in an £18 million increase in stability. They computed that the additional expenditure would increase the number of customers by 6 percent. This increase would in turn result in a corresponding 4.8 percent increase in customer retention. Customer retention clearly deserves some attention and should form part of strategic marketing goals rather than simply being seen as the end result of `good' marketing management. However, attempts to integrate customer retention goals and strategies into their strategic planning process need to consider practical issues.

2.4 Determinants of customer retention

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. 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 (2008) 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.

Furthermore, Ganesh (2010) adds that companies that retain a high percentage of customers can improve their reputation, and easily attract new customers in the future. Customer retention is one of most important factors leading a company to increased profitability and revenue. They stated that an increase in customer retention usually is associated with a higher level of customer satisfaction.

2.4.1 Service recovery

The service recovery means the ability of the service provider to solve the problem such as the customer dissatisfaction and the service failure. This study 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 longterm 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. 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 (Healy, 2009). Such failures may cause significant costs to the firm, such as lost customers and negative word of mouth.

2.4.2 Service quality

In order to survive in today's business environment, most recent research suggests placing an emphasis on service quality. Service quality is defined as the foundation of a comparison between customers' expectations and the perceived performance of service providers. Customers' expectations are defined as what customers want or desire based on their antecedent experiences with the firm. Customer expectations compared with actual service performance results in the assessment of quality that customers obtain from particular service providers (Mendzela, 2009).

In their research, Parasuraman et al (1991) described the inconsistency between customers' expectations and their perceived service performance in specific services. This called Gap 5. They subsequently developed the SERVQUAL model in order to measure service quality perception by customers. From the customer's viewpoint, Gap 5 is very important. The dimensions of service quality focus on tangibles, reliability, responsiveness, assurance, and empathy. Outstanding service quality can lead to favorable behavioral intentions, which may result in improved customer retention.

2.4.3 Interpersonal relationship

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 and Parasuraman, 1991). Therefore 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.

2.4.4 Customer satisfaction

The customer satisfaction is an important factor for the customer retention but not a sufficient (Jones et al., 2010). 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 some different level. The customer satisfaction has positive effect on the customer retention.

A firm's future profitability depends on satisfying customers in the present – retained customers should be viewed as revenue producing assets for the firm. 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. 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 (Abratt and Russell, 2009).

2.5.5 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. 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 (Reichheld and Sasser, 1996). 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.

2.4.6 Perceived price fairness

From the consumer's perspective, the monetary cost of something is what is given up or sacrificed to obtain a product. 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. 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 et al, 2009).

As to the relationship between price and satisfaction, research has shown that price is one of the determinants of customer satisfaction (Story, 2007). 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. 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. Price fairness should have an influence on customer satisfaction as well as on behavioral intentions. 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 is a blueprint of the methodology that will be used by the researcher to find answers to the research question. In this chapter the research methodology will be presented in the following order, research design, target population, sampling procedure, data collection methods, instruments of data collection and finally the pilot study and the data analysis.

3.2 Research design

Orodho (2003) defines a research design as the scheme, outline or plan that was used to generate answers to research problems. This study adopted cross-sectional research design based on the key areas of interest. Cross-sectional research design helped the researcher to clearly identify and describe true characteristics of a research problem without manipulation of research variables (Mugenda & Mugenda, 2003). According to Polit and Beck (2003), in a cross-sectional study, researchers observe, count, delineate, and classify. They further describe descriptive research studies as studies that have, as their main objective, the accurate portrayal of the characteristics of persons, situations, or groups, and/or the frequency with which certain phenomena occur.

3.3 Study population

Target population is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated. Population studies are more representative because everyone has equal chance to be included in the final sample that is drawn according to Mugenda and Mugenda

(2003). The target population for this study included the 44 commercial banks operating in Nairobi as at December 2013. The study adopted a census approach collecting data from all the commercial banks in Nairobi since the population is not big.

3.4 Data collection

The researcher used a questionnaire as the primary data collection instrument. According to Sproul (1998), a self-administered questionnaire is the only way to elicit self-report on people's opinion, attitudes, beliefs and values. The questionnaires were divided into sections representing the various variables adopted for study. Each section of the chosen study included closed structured and open ended questions which sought the views, opinion, and attitude from the respondent which were not captured by the researcher. The questions were designed to collect qualitative and quantitative data. The open ended questionnaires gave unrestricted freedom of answer to respondents. The questionnaire were administered through drop and pick method to the managers of the customer service departments in each bank. The researcher used assistants to distribute by hand the questionnaires to be completed by the selected respondents. Upon completion, the research assistants collected the questionnaires and ensured high completion rate and return of the completed questionnaires.

Secondary data involved data that was collected from other past records that had been collected and tabulated through graphs, charts and reports. This type of data was collected from reference materials, which had key information and was helpful to this research study. Collection of secondary data was obtained through desk research, which was either from internal or external sources. The external sources included publication press, newspapers, libraries, and various research related organizations.

3.5 Validity and reliability test

According to Somekh, and Cathy (2005) validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity which is employed by this study is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Mugenda and Mugenda (1999) contend that the usual procedure in assessing the content validity of a measure is to use a professional or expert in a particular field. To establish the validity of the research instruments the researcher sought opinions of experts in the field of study especially the lecturers. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity

According to Walliman and Nicholas (2001), reliability refers to the consistency of measurement and is frequently assessed using the test–retest reliability method. Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. The researcher selected a pilot group of 15 individuals from the target population to test the reliability of the research instrument. This was achieved by first stratifying the individuals according to level of management. The researcher also put in consideration gender equity and geographical background of individuals.

3.6 Data analysis

This included analysis of data to summarize the essential features and relationships of data in order to generalise from the analysis to determine patterns of behaviour and particular outcomes. The data collected from the field was assessed and comparison were made so as to select the most accurate and quality information from the feedback given by various respondents. This involved assessing and evaluating the questionnaires and other sources of both primary and secondary data. Descriptive statistics analysis was employed. The quantitative data was coded to enable the responses to be grouped into various categories. The organised data was interpreted in terms of averages and standard deviation to objectives using assistance of computer packages especially SPSS (version 21) to communicate research findings. In addition, the study conducted a regression analysis and a Pearson's correlation analysis to establish the relationship between the variables. Tables were used to present the study findings for ease of understanding.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses data analysis, presentation and interpretation of the research findings in line with the objectives of the study. The data obtained was presented in tables to reflect different response rate amongst the respondents. Analysis of the response rate, general information and independent variables was conducted and the obtained data was subjective to quantitative and qualitative analysis.

The study targeted 44 banks, in which, 34 out of 44 respondents filled in and returned the questionnaires giving a response rate of 77.3%. Response rate was good and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting.

4.2 Demographic Information

The study sought to find out demographic information of the respondents including their level of education and the age of the banks and the findings are as follows;

The study sought to find out the level of education of the respondents. Findings are in table 4.1.

Table 4. 1: Level of Education

	Frequency	Percentage
Primary	1	2.9
secondary	2	5.9
Diploma	4	11.8
University Bachelor's Degrees	20	58.8
Postgraduate Degree	7	20.6
Total	**34**	**100.0**

According to the findings, majority of the respondents (58.8%) had a university Bachelor's Degree. 20.6% had a postgraduate degree. 11.8% had a diploma, 5.9% had secondary level education and the rest 2.9% had primary level of education.

The study sought to determine the age of the bank. Findings are as presented in table 4.2.

Table 4. 2: Age of the Bank

	Frequency	Percentage
Less than 20 years	2	5.9
21-30 years	3	8.8
31-40 years	4	11.8
41- 50 years	6	17.6
51-60 years	11	32.4
61 years and above	8	23.5
Total	**34**	**100.0**

From the findings, 32.4% of the banks were aged between 51 to 60 years, 23.5% were aged between 61 years and above, 17.6% said between 41 to 50 years, 11.8% said between 31 to 40 years, 8.8% between 21 to 30 years and the rest 5.9% said the bank was less than 20 years.

4.3 Customers Satisfaction

The study sought to determine how the level of service quality in the bank was rated and level of agreement on the level of customer satisfaction based on various aspects. Findings are in table 4.3.

Table 4.3: Rating the Level of Service Quality in the Bank

	Frequency	**Percentage**
High	20	58.8
Moderate	9	26.5
Low	5	14.7
Total	**34**	**100.0**

According to the findings, majority of the respondents (58.8%) indicated that level of service quality in the bank was high.26.5% said moderate and 14.7% said it was low.

Table 4.4: Level of Agreement on the Level of Customer Satisfaction with Various Aspects

	Mean	Standard deviation
Convenience of branch location	4.7600	0.97037
Prices (charges/fees/interest)	4.6667	0.87508
Access to electronic transactions	4.6067	0.98328
The banks effort to inform customers bout new products and services	4.5267	0.05745
Accuracy of banking records	4.5128	0.94096
The efficiency of customer service	4.1067	0.93828
Accuracy of transactions	3.8667	0.96329
The physical appearance of the branch	3.0800	0.96926
The staff who deliver the services	2.8267	0.89100

As indicated in table 4.4, it was strongly agreed that customers were satisfied with convenience of branch location, prices (charges/fees/interest), access to electronic transactions, banks effort to inform customers about new products and services and accuracy of banking records as expressed by the mean scores in table 4.4 above. Respondents agreed that customers were satisfied with efficiency of customer service and accuracy of transactions as expressed by a mean score of 4.1067 and 3.8667 respectively. They were neutral on the fact that customers were satisfied with the physical appearance of the branch and the staff who deliver the services as expressed by a mean score of 3.0800 and 2.8267 respectively.

4.4 Customer Perception of Value

The study sought to find out the level of customer satisfaction with various statements related to customer perception of value. Findings are in table 4.5.

Table 4.5: Level of Customer Satisfaction with Various Statements Related To Customer Perception of Value

	Mean	Standard deviation
Efficient service	4.6734	0.2345
Listens and is sensitive to customers' needs	4.5110	0.9512
Offers latest electronic products	4.2020	0.8652
Flexible banking policy	4.1333	0.6455
Convenient branch location	4.0707	0.8569
Fair method of setting fees	4.0576	0.6139
Extended banking hours	3.8606	0.6586
Many branch locations	3.4848	0.7550

As indicated in Table 4.5, it was strongly agreed that customers were satisfied with the fact that the bank had efficient service, listens and is sensitive to customers' needs as expressed by a mean score of 4.6734 and 4.5110 respectively. They were also satisfied with the fact that the bank offers latest electronic products, had flexible banking policy, had convenient branch location, fair method of setting fees and that it had extended banking hours as expressed by a mean score of 4.2020, 4.1333, 4.0707, 4.0576 and 3.8606 respectively. They were neutral on the fact that customers were satisfied with many branch locations the bank had as expressed by a mean score of 3.4848.

4.5 Perceived Corporate Image

The study sought to determine the level of agreement on customer satisfaction with various statements. The respondents were asked to indicate their level of agreement with various statements on customer satisfaction; the results are as indicated in Table 4.6.

Table 4.6: Level of Agreement on Various Statements on Customer Satisfaction

	Mean	**Standard deviation**
Trustworthy	4.4198	0.5416
Reliable	4.3512	0.0907
Stable	4.2034	0.4563
Distinctive/Unique compared to others	4.0400	0.8292
Widely-known	4.0333	0.5802
Involved in the community	3.9733	0.7880
Well-liked	3.0133	0.8301

From the findings, the respondents agreed that they perceived the image of the bank as trustworthy, reliable, stable, distinctive/unique compared to others, widely-known and involved in the community as expressed by a mean score indicated in table 4.6 above. They were neutral on the fact that the image of the bank was well-liked as expressed by a mean score of 3.0133.

4.6 Perceived Competitive Advantage

The respondents were asked to indicate their level of agreement with various statements related to perceived competitive advantage. The results are as indicated in Table 4.7.

Table 4.7: Level of Agreement with Various Statements Related To Perceived Competitive Advantage

	Mean	Standard deviation
Offers unique and distinctive products	4.0800	0.94096
Uses latest technology	3.9733	0.78797
Has competitive pricing compared to others	3.8667	0.96329
Has excellent service quality	3.8533	0.91080
Has memorable advertisement	3.0133	0.83007

According to the findings, the respondents agreed on the fact that the bank had competitive advantage because it offers unique and distinctive products, uses latest technology, has competitive pricing compared to others and that it has excellent service quality as expressed by a mean score of 4.0800, 3.9733, 3.8667 and 3.8533 respectively. They were neutral on the fact that the bank had competitive advantage because it had memorable advertisement as expressed by a mean score of 3.0133.

4.7 Perceived Switching Barriers

The respondents were asked to indicate their level of agreement on level of satisfaction with aspects related to perceived switching barriers. The results are shown in Table 4.8.

Table 4.8: Level Of Agreement On Level Of Satisfaction With Aspects Related To Perceived Switching Barriers.

	Mean	Standard deviation
Switching is too inconvenient	4.4595	0.50523
They have good relationship with my bank	4.0541	1.05267
They receive incentive from my bank	4.0000	0.81650
They see little advantage in switching	3.8649	0.91779
The bank is able to provide goods and services I need	3.8108	0.73929
They use a variety of products from my bank	3.7297	1.07105

As shown in Table 4.8, respondents agreed that customers did not like switching because switching is too inconvenient, they have good relationship with the bank, they receive incentive from the bank, they see little advantage in switching, the bank is able to provide goods and services they need and that they use a variety of products from the bank as expressed by a mean score of 4.4595, 4.0541, 4.0000, 3.8649, 3.8108 and 3.7297 respectively.

4.8 Behavioral Intentions

The respondents were asked to indicate their level of agreement on satisfaction based on behavioral intentions. The results are as indicated in Table 4.9.

Table 4.9: Level of Agreement on Customer Satisfaction Based On Behavioral Intentions

	Mean	Standard deviation
It has a reputation of superior service quality	4.7838	0.41734
It is able to meet consumers changing needs	4.5946	0.49774
Prices of services are acceptable	4.2162	0.91697
It offers a variety of products	4.0000	0.81650
It has convenient branch location	3.3514	0.97799
It has a favorable image	3.2162	1.05765

As shown in Table 4.9, the respondents strongly agreed that customers choose the bank because they thought it has a reputation of superior service quality and that it is able to meet consumers changing needs as expressed by a mean score of 4.7838 and 4.5946 respectively. It was agreed that customers choose the bank because they thought prices of services were acceptable and that it offers a variety of products as expressed by a mean score of 4.2162 and 4.000 respectively. They were also neutral on the fact that customers chose the bank because they thought it has convenient branch location and that it has a favorable image as expressed by a mean score of 3.3514 and 3.2162 respectively.

4.9 Customer Loyalty

The respondents were asked to indicate their level of agreement with various aspects related to customer loyalty. The results are as shown in Table 4.10.

Table 4.10: Level of Agreement with Various Aspects Related To Customer Loyalty

	Mean	Standard deviation
My bank offers them reward and benefits	4.2020	0.86516
The bank is responsive to their changing needs	4.0707	0.85690
They have excellent relationship with staff	4.0576	0.61392
It is difficult to change banks	3.4253	0.87620
My bank is efficient in handling complains	3.0800	0.96926
Other banks cannot offer service and quality they want	2.9600	0.90703

The results in Table 4.10 show that the respondents agreed on the fact that customers stay with the bank because the bank offers them reward and benefits, the bank is responsive to their changing needs and that they have excellent relationship with staff as expressed by a mean score of 4.2020, 4.0707 and 4.0576 respectively. They were neutral on the fact that it is difficult to change banks, the bank is efficient in handling complains and that other banks cannot offer service and quality they want as expressed by a mean score of 3.4253, 3.0800 and 2.9600 respectively.

4.10 Customer Retention

The study sought to find out whether customers had transferred from the bank. The study found out that the bank had retained most of its customers. This was because the bank offers rewards and benefits to clients, the bank is responsive to changing needs and the staff relate very well with the customers.

The respondents were asked to indicate the trend of customer retention in the bank for the last 5 years. The results are as shown in Table 4.11.

Table 4.11 Customer retention Trend for the Last 5 Years

	Frequency	**Percentage**
Greatly Improved	14	41.2
Improved	13	38.2
Constant	4	11.8
Decreasing	2	5.9
Greatly decreased	1	2.9
Total	**34**	**100**

The results in Table 4.11 indicate that majority of the respondents (41.2%) indicated that the customer retention trend had greatly improved. 38.2% said it had improved, 11.8% said it was constant, 5.9% it was decreasing, 2.9% indicated it had greatly decreased.

It was found out that the bank should inform customers about new products and services and accuracy of banking records. The bank should also offer efficient service, listens and is sensitive to customers' needs. The study also found that the bank should engage more in corporate social responsibility activities in order to involve the community and even empower the community. This will create a good image for the bank. The study found out that the bank should work more on improving its reputation of superior service quality and that it was able to meet consumers changing needs. Finally the study found out that the bank should have well laid down mechanisms of receiving and addressing complains from the customers. This boosts customer loyalty and satisfaction.

4.11 Inferential Statistics

The study used inferential statistics to come up with the model explaining the relationship between customer retention (dependent variable) and customers satisfaction, customer perception of value, perceived corporate image, perceived competitive advantage, perceived switching barriers, behavioral intentions and customer loyalty (independent variables).

4.11.1 Pearson's Correlation Analysis

The data presented before on customers satisfaction, customer perception of value, perceived corporate image, perceived competitive advantage, perceived switching barriers, behavioral intentions and customer loyalty were computed into single variables per factor by obtaining the averages of each factor. Pearson's correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed.

Table 4.12: Correlations Matrix

		Customer Retention	Customer Perception of Value	Perceived Corporate Image	Perceived Competitive Advantage	Perceived Switching Barriers	Behavioral Intentions	Customer Loyalty	Customers Satisfaction
Customer Retention	Pearson Correlation	1							
	Sig. (2tailed)								
	N	34							
Customer Perception of Value	Pearson Correlation	.591	1						
	Sig. (2tailed)	.000							
	N	34	34						
Perceived Corporate Image	Pearson Correlation	.654	.597	1					
	Sig. (2tailed)	.000	.000						
	N	34	34	34					
Perceived Competitive Advantage	Pearson Correlation	.519	.544	.738	1				
	Sig. (2tailed)	.005	.000	.000					
	N	34	34	34	34				
Perceived Switching Barriers	Pearson Correlation	.582	.433	.808	.767	1			
	Sig. (2tailed)	.000	.001	.000	.000				
	N	34	34	34	34	34			
Behavioral Intentions	Pearson Correlation	.683	.464	.684	.489	.558	1		
	Sig. (2tailed)	.000	.000	.000	.000	.000			
	N	34	34	34	34	34	34		
Customer Loyalty	Pearson Correlation	.745	.329	.407	.401	.391	.723	1	
	Sig. (2tailed)	.000	.013	.002	.002	.003	.000		
	N	34	34	34	34	34	34	34	
Customers Satisfaction	Pearson Correlation	.517	.402	.377	.249	.364	.695	.775	1
	Sig. (2tailed)	.000	.002	.004	.065	.006	.000	.000	
	N	34	34	34	34	34	34	34	34

The table above indicates the correlation matrix between the factors (customers' satisfaction, customer perception of value, perceived corporate image, perceived competitive advantage, perceived switching barriers, behavioral intentions and customer loyalty) and customer retention. According to the table, there is a positive relationship between customer retention and customers' satisfaction, customer perception of value, perceived corporate image, perceived competitive advantage, perceived switching barriers, behavioral intentions and customer loyalty of magnitude 0.517, 0.591, 0.654, 0.519, 0.582, 0.683 and 0.745 respectively. The positive relationship indicates that there is a correlation between the factors and the customer retention. This infers that customer loyalty has the highest effect on customer retention while perceived competitive advantage having the lowest effect on the customer retention. All the variables were significant ($p<0.05$).

4.11.2 Regression Analysis

The study conducted a regression analysis and the results are as shown in Table 4.13 4.14 and 4.15.

Table 4.13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.894	0.799	0.742	0.45862

Table 4.16 shows the model fit which establish how fit the model equation fits the data. The adjusted R^2 was used to establish the predictive power of the study model and it was found to be 0.742 implying that 74.2% of the variations in customer retention is explained by customers' satisfaction, customer perception of value, perceived corporate image, perceived competitive advantage, perceived switching barriers, behavioral intentions and customer loyalty leaving 25.8% percent unexplained. Therefore, further studies should be done to establish the other factors (25.8%) affecting customer retention by commercial banks in Kenya.

Table 4.14: ANOVA results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.829	7	1.729	8.218	.0001
	Residual	9.886	26	.210		
	Total	23.714	33			

The probability value of 0.0001 indicates that the regression relationship was highly significant in predicting how customers' satisfaction, customer perception of value, perceived corporate image, perceived competitive advantage, perceived switching barriers, behavioral intentions and customer loyalty affected customer retention by commercial banks in Kenya.

Table 4.15: Coefficients of Determination

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.558	.477		3.259	.002
	Customer Perception of Value	.704	.108	.125	.959	.042
	Perceived Corporate Image	.684	.144	.346	2.672	.010
	Perceived Competitive Advantage	.460	.129	.216	1.240	.021
	Perceived Switching Barriers	.577	.126	.114	.609	.032
	Behavioral Intentions	.515	.197	.311	1.601	.016
	Customer Loyalty	.710	.186	.011	.034	.015
	Customers Satisfaction	.738	.160	.128	.737	.004

The established model for the study was:

$$Y = 1.558 + 0.125X_1 + 0.346X_2 + 0.216X_3 + 0.114X_4 + 0.311X_5 + 0.011X_6 + 0.128X_7$$

The regression equation above has established that taking all factors into account (customers' satisfaction, customer perception of value, perceived corporate image, perceived competitive advantage, perceived switching barriers, behavioral intentions and customer loyalty) constant at zero customer retention by mortgage firms will be 1.558. The findings presented also show that overall, perceived corporate image had the greatest on the customer retention ($\beta = 0.346$), behavioral intentions ($\beta = 0.311$), competitive advantage ($\beta = 0.216$), customers satisfaction effect ($\beta = 0.128$), customer perception of value ($\beta = 0.125$), then perceived switching barriers ($\beta = 0.114$) while perceived customer loyalty ($\beta = 0.011$) had the least effect to the customer retention by commercial banks in Kenya. All the variables were significant ($p<0.05$).

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objective of the study.

5.2 Summary of Findings

The study sought to establish the customer retention strategies adopted by commercial banks in Kenya.The study deduced that level of service quality in the bank was high. It was strongly agreed that customers were satisfied with convenience of branch location, prices (charges/fees/interest), access to electronic transactions, banks effort to inform customers about new products and services and accuracy of banking records. In addition, it was agreed that customers were satisfied with efficiency of customer service and accuracy of transactions. Customers were not satisfied with the physical appearance of the branch and the staff who deliver the services.

The study found out that customers were satisfied with the fact that the bank had efficient service, listens and is sensitive to customers' needs. in addition, it was agreed that they were also satisfied with the fact that the bank offers latest electronic products, had flexible banking policy, had convenient branch location, fair method of setting fees and that it had extended banking hours. Customers were not satisfied with many branch locations the bank had.

The study found out that, as agreed, customers perceived the image of the bank as trustworthy, reliable, stable, distinctive/unique compared to others, widely-known and involved in the community. The image of the bank was not well-liked.

The study established that the bank had competitive advantage because it offers unique and distinctive products, uses latest technology, has competitive pricing compared to others and that it has excellent service quality as agreed. The bank had no competitive advantage because it didn't have memorable advertisement.

On the issue of perceived switching barriers, the study established that customers did not like switching because switching was too inconvenient, they had good relationship with the bank, they received incentive from the bank, they saw little advantage in switching, the bank was able to provide goods and services they needed and that they used a variety of products from the bank.

The study found out that it was strongly agreed that customers choose the bank because they thought it had a reputation of superior service quality and that it was able to meet consumers changing needs. It was agreed that customers chose the bank because they thought prices of services were acceptable and that it offers a variety of products. Customers did not choose the bank because they thought it didn't have convenient branch location and that it didn't have a favorable image.

The study further found out that customers stay with the bank because the bank offers them reward and benefits, the bank is responsive to their changing needs and that they have excellent relationship with staff. In addition, it was not difficult to change banks, the bank was inefficient in handling complains and that other banks can offer service and quality they want.

5.3 Conclusion

The study concluded that level of service quality in the bank was high. Customers were satisfied with convenience of branch location, prices (charges/fees/interest), access to electronic transactions, banks effort to inform customers about new products and services and accuracy of banking records.

The study also concluded that customers were satisfied with the fact that the bank had efficient service, listens and is sensitive to customers' needs. They were also satisfied with the fact that the bank offers latest electronic products, had flexible banking policy, had convenient branch location, fair method of setting fees and that it had extended banking hours.

On the issue of perceived corporate image, the study concluded that customers perceived the image of the bank as trustworthy, reliable, stable, distinctive/unique compared to others, widely-known and involved in the community.

The study concluded that customers did not like switching because switching was too inconvenient, they had good relationship with the bank, they received incentive from the bank, they saw little advantage in switching, the bank was able to provide goods and services they needed and that they used a variety of products from the bank.

On the issue of behavioral intentions, the study concluded that customers choose the bank because they thought it had a reputation of superior service quality and that it was able to meet consumers changing needs. In addition, customers chose the bank because they thought prices of services were acceptable and that it offers a variety of products. The study finally concluded that customers stay with the bank because the bank offers them rewards and benefits, the bank was responsive to their changing needs and that they had excellent relationship with staff.

5.4 Recommendations

From the findings, it was evident customers were satisfied with banks effort to inform customers about new products and services and accuracy of banking records. Therefore to retain customers by satisfying them, this study recommends that banks should streamline processes with automated reconciliations and keep their records up-to-date to enhance accuracy of banking records, increasing efficiency and effectiveness.

On the issue of customer perception of value, it was evident that customers were satisfied with the fact that the bank had efficient service, listens and is sensitive to customers' needs. Therefore this study recommends that banks should come up with a mechanism of solving customer's queries and ensure that feedback/ response to them is fast.

The study also recommends that banks should be involved in more corporate social responsibility activities in order to involve the community and even empower the community. This will enable banks have a good image.

The study also recommended that banks should differentiate their products in such a way that switching costs to other alternative sources of finance will be higher. This will retain the customers.

From the conclusion it was evident that customers choose the bank because they thought it had a reputation of superior service quality and that it was able to meet consumers changing needs. Therefore this study recommends that banks should have commitment to quality which has to come from the top and it has to be reinforced over and over again. In addition, organizing employees into quality circles can be an effective way to identify and address problems.

The study finally concluded that banks should come up with a mechanism that is efficient and effective to handle complaints and feedback from the customers since from the conclusion, bank was inefficient in handling complains. The study also recommends that banks should take time to truly listen to what the customers say, stay in contact with existing and past clients on a consistent basis and promptly return phone calls and e-mail messages. This will enhance customer loyalty and retention.

5.5 Suggestions for Further Study

This study laid emphasis on the customer retention strategies adopted by commercial banks in Kenya. Research should also be conducted on factors affecting implementation of customer retention strategies adopted by commercial banks in Kenya.

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APPENDICES

Appendix I: Research Questionnaire

Demographic Information

1. Title……….

2. Please indicate your highest education level?

Primary ☐ Secondary ☐

Diploma ☐ University Bachelors Degrees ☐

Postgraduate Degree ☐ Others....................

3. Age of the bank?

Less than 20 years ☐ 41-50 years ☐

21-30 years ☐ 51-60 years ☐

31-40 years ☐ 61 years and above ☐

4. Please indicate the size of the bank

Tier one ☐

Tier two ☐

Tier three ☐

Tier four ☐

Customers Satisfaction

5. Rate the level of service quality in your bank?

High ☐ Moderate ☐

Low ☐

6. Based on the nine item index provided below on a 5-point scale, state the level of customer satisfaction with the following factors?

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

Customers are satisfied by……	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 bout new products and services					
Prices (charges/fees/interest)					

Customer Perception of Value

7. Based on the nine item index provided below on a 5-point scale, state the level of customer satisfaction with the following factors?

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

My bank 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					

Perceived Corporate Image

8. Based on the nine item index provided below on a 5-point scale, state the level of customer satisfaction with the following factors?

(*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					

Perceived Competitive Advantage

9. Based on the nine item index provided below on a 5-point scale, state the level of satisfaction with the following factors?

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

Customers 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					

Perceived Switching Barriers

10. Based on the nine item index provided below on a 5-point scale, state the level of satisfaction with the following factors?

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

Customers do not feel like switching because…	1	2	3	4	5
The bank is able to provide goods and services I need					
They see little advantage in switching					

They have good relationship with my bank					
Switching is too inconvenient					
They use a variety of products from my bank					
They receive incentive from my bank					

11. Behavioral Intentions

11. Based on the nine item index provided below on a 5-point scale, state the level of satisfaction with the following factors?

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

Customers chose my bank because they 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					

12. Customer Loyalty

What is your level of agreement with the following statements?

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

Customers stay with my bank because…	1	2	3	4	5
It is difficult to change banks					
They have excellent relationship with staff					
The bank is responsive to their changing needs					
My bank is efficient in handling complains					
My bank offers them reward and benefits					
Other banks cannot offer service and quality they want					

13. Customer Retention

13. Have customers ever transferred from your bank?

Yes ☐ No ☐

If yes, what factors made them transfer from your bank?...……………………………………………… ………………………………………

14. What is the trend of customer retention in your bank for the last 5 years?

Greatly Improved [ ]

Improved [ ]

Constant [ ]

Decreasing [ ]

Greatly decreased [ ]

14. What factors make them dissatisfied with your bank?................................

…………………………………………………………………………………………

15. What strategies do you think should be employed by your bank to achieve maximum customer satisfaction?..

…………………………………………………………………………………………..

…………………………………………………………

THANK YOU

Appendix II: List of Commercial Banks in Kenya

1. African Banking Corporation Limited
2. Bank of Africa Kenya Ltd
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya Ltd
6. CFC-Stanbic Bank Ltd
7. Charterhouse Finance Bank Ltd
8. Chase Bank Ltd
9. Citibank N.A. Kenya
10. City Finance Bank Ltd
11. Commercial Bank of Africa Ltd
12. Consolidated Bank of Kenya
13. Co-operative Bank of Kenya Ltd
14. Credit Bank
15. Development Bank of Kenya
16. Diamond Trust Bank Ltd
17. Dubai Bank Kenya Ltd
18. Eco Bank Limited
19. Equatorial Commercial Bank
20. Equity Bank
21. Family Bank Ltd
22. Fidelity Commercial Bank Ltd
23. Fina Bank Ltd
24. First Community Bank Ltd
25. Giro Commercial Bank Ltd
26. Guardian Bank Limited
27. Gulf African Bank Limited
28. Habib Bank A.G. Zurich
29. Habib Bank Ltd
30. Imperial Bank Ltd
31. Investment & Mortgages Bank Ltd
32. Kenya Commercial Bank Limited

33. K-Rep Bank Ltd
34. Middle East Bank (K) Ltd
35. National Bank of Kenya Ltd
36. NIC Bank Ltd
37. Oriental Commercial Bank Ltd
38. Paramount Universal Bank Ltd
39. Prime Bank Ltd
40. Southern Credit Banking Corporation Ltd
41. Standard Chartered Bank (K) Ltd
42. Transnational Bank Ltd
43. United Bank of Africa Kenya Bank Limited
44. Victoria Commercial Bank Ltd

Source: CBK Report, 2013