AN ANALYSIS OF FACTORS INFLUENCING CUSTOMER LOYALTY IN FINANCIAL INSTITUTIONS: A CASE OF CUSTOMERS OF POST BANK RIFT VALLEY REGION

EGERTON UNIVERSITY LIBRARY

KOECH, ISAAC KIPKEMBOI: (CM11/0093/02)

A RESEARCH PROJECT SUBMITTED TO GRADUATE SCHOOL IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION DEGREE (MBA) IN THE FACULTY OF COMMERCE OF EGERTON UNIVERSITY

EGERTON UNIVERSITY

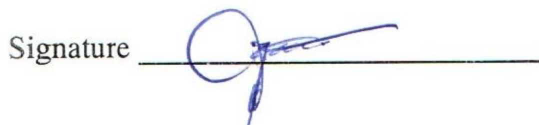
JULY 2007

2007/72552

DECLARATION

This Research Project is my original work and has not been submitted for a degree in any other University

Koech, Isaac Kipkemboi (Student)

Signature  Date 30/6/07

Approved For submission

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

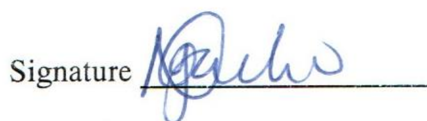
1. Mr. T. R. Wambua (Research Supervisor)

   Lecturer, Department of Business Management.

   Signature Date 2/07/07

2. MR .C. Ngacho (Research Supervisor)

   Lecturer, Department of Business Management.

   Signature  Date 09/07/2007

ABSTRACT

Industry experts point out that more products with a single customer translate to more relationships with that customer and enhanced loyalty. Consumer loyalty research geared towards service quality and products has attracted much attention. This research project analyzed factors affecting customer loyalty in banks. A total of 200 stratified sample customers of POSTBANK were the respondents. The study employed statistical techniques in analysis of data obtained through the use of a structured questionnaire. Factor analysis was employed to determine factors affecting customer loyalty and Kruskal Wallis ANOVA was used to determine if these factors equally influence customer loyalty. The results show that banks should aim at customer satisfaction, trust, value, competition, performance, corporate image and peer influence as away of improving customer loyalty. This is because these factors positively influence customer loyalty in financial institutions. By considering these factors, financial institutions will reduce their marketing and operational costs in terms of maintaining dormant accounts. Based on the results, a retention programme appropriate to financial institutions was recommended. In addition, the link between customer loyalty and satisfaction was discussed creating a system, which processes inputs and overall satisfaction outputs.

TABLE OF CONTENTS

DECLARATION i

ABSTRACT ii

TABLE OF CONTENTS iii

LIST OF FIGURES vi

LIST OF TABLES vii

ACKNOWLEDGEMENT viii

ABBREVIATIONS AND ACRONYMS ix

CHAPTER 1: INTRODUCTION 1

1.1 Background of the Study. 1

1.2 Statement of the Problem 4

1.3 Objectives of the Study 4

1.4 Research Hypotheses 5

1.5 Importance of the Study. 5

1.6 Scope and justification of the Study 5

1.7 Limitation of the study 6

1.8 Definition of Terms as used in the research 7

CHAPTER 2: LITERATURE REVIEW 10

2.1 Marketing in Banking 10

2.2 Service Quality and Customer Satisfaction 13

2.3 Customer Loyalty 14

2.4 Customer Purchasing Behaviour and Loyalty 15

2.5 Empirical Studies 16

2.6 Conceptual Framework 18

CHAPTER 3: RESEARCH METHODOLOGY 19

3.1 Research Design 19

3.2 Target Population. 19

3.3 Sampling Design 19

3.4 Data collection. 20

3.5 Data Analysis and Test of hypothesis 20

CHAPTER 4: DATA ANALYSIS AND DISCUSSIONS OF FINDINGS 23

4.1 General Findings 23

4.1.1 Perceived Risk of Moving from one financial institution to another .. 24

4.1.2 Ease of Getting to other Banks 25

4.1.3 Ease of Getting Information from other Banks 25

4.1.4 Cost Involved in Changing Banks 26

4.1.5 The Transaction Cost Involved 27

4.1.6 Product Diversity 28

4.1.7 Length of Service Time 29

4.1.8 Information on Products offered 29

4.1.9 Modern Looking Facilities 30

4.1.10 Security on Making Transactions 31

4.1.11 The Quality of Service 32

4.1.12 Influence on customers by Close Friends 33

4.1.13 Payment of Negotiated Interest 34

4.1.14 Confidence in Bank's Managers and Workers 35

4.1.15 Banks and Automated Teller Machines 39

4.2 Results of Test of Hypotheses 40

4.2.1 Testing the First Hypothesis 40

4.2.2 Testing the Second Hypothesis 49

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS .. 52

5.1 Summary 52

5.2 Conclusion 53

5.3 Recommendations for adoption and areas for further research. 54

REFERENCES 57

APPENDIX 1: QUESTIONNAIRE 60

LIST OF FIGURES

Figure 1: Parasuraman et al's Model of Service Quality 12

Figure 2: Model of Study of Customer Loyalty 18

Figure 3: Product Diversity 28

Figure 4: The Quality of Service. 32

Figure 5: Influence from Close Friends 33

Figure 6: The Bank does not Exploit Me 38

Figure 7: Scree Plot 45

Figure 8: Maintenance of level of customer loyalty.. 54

LIST OF TABLES

Table 1: Number of customers per branch and respondents selected. 19

Table 2: Number of customers per branch and respondents selected. 23

Table 3: Perceived Risk Associated With Moving.. 24

Table 4: Ease of Getting to other Banks.. 25

Table 5: Ease of Getting Information from Other Banks... 26

Table 6: Cost Involved in Switching.. 26

Table 7: The Transaction Cost Involved 27

Table 8: Length of Service Time.. 29

Table 9: Information on Products Offered 30

Table 10: Modern Looking Facilities.. 30

Table 11: Security on Making Transactions.. 31

Table 12: Payment of Negotiated Interest 34

Table 13: Confidence in Managers and Bank Workers 35

Table 14: Standardized and Predictable Bank Services 37

Table 16: KMO and Bartlett's Test.. 42

Table 17: Reliability of the indicator (Communalities).. 43

Table 18: Total Variance Explained.. 44

Table 19: Rotated Component Matrix... 46

Table 20: Analyse-It Microsoft Excel Output 49

Table 21: Pearson Correlation coefficients 50

ACKNOWLEDGEMENT

My special word of great appreciation is extended to my Supervisors Mr. T. R. Wambua and Mr. C. Ngacho of Egerton University who patiently guided me through my research project. I also thank all the lecturers of the Department of Business Management for imparting on me invaluable knowledge.

To my MBA classmates, I wish to thank them all for company and the many discussions that helped in the study. My special thanks go to Leah Maritim and Jane Chumba for assisting in the preparation of the document.

ABBREVIATIONS AND ACRONYMS

ANOVA	=	Analysis of Variance
ATM	=	Automated Teller Machine
CBK	=	Central Bank of Kenya
KPLC	=	Kenya Power and Lighting Company
KPTC	=	Kenya Posts and Telecommunication Corporation
POSTBANK	=	Kenya Post office savings bank
SACCOs	=	Savings and Credit Cooperative Societies
TQM	=	Total Quality Management
TQOS	=	The quality of service

CHAPTER 1: INTRODUCTION

1.1 Background of the Study.

Business establishments' aim at realizing maximum profits hence strives to reach out for new customers as well as retain their existing clientele. In so doing, they embrace the use of information and communication technology to operate close to their customers, competitors, suppliers, and government regulators. As a result, there is reduced time in passing information and intelligence hence contemporary businesses operate in an environment where there is increased dynamisms, turbulence and hostility. They experience daily changes attributed to the product life cycle, changes in information technology, population increase and inflation, social and cultural environments among others. Banks also experience these changes resulting in a number of uncertainties regarding customers, suppliers, competitors and government regulators.

Due to this increased dynamism, banks strive to reduce the uncertainties that may affect their operations by embracing strategies that enable them compete effectively within the regulatory frameworks. One such strategy is customer retention, which calls for keeping up with both business environment and industry's set standards. These changes are necessitated by simultaneity of production and consumption of bank products and services hence should be commensurate with the level of technological changes. The impression that clients have when provided with products and services, determines where they take their next business. A bad impression can lead to reduced business from the said clients.

To avoid such negative change in business, banks should make their retention programmes more attractive rather than attempt to gain new customers because it is much cheaper to retain present customers than acquire new ones (Reichheld and Schefter, 2000). A number of strategies can be used to build a loyal customer base. The products and services can be marketed to present customers to enable them consolidate with one bank hence benefit from combined services. Customer complaints can be used to set improvement levels or seek solutions, which make customers feel that their requirements will be addressed promptly. Continuously interacting with the same employees can build confidence in clients hence the need to retain a royal workforce. Lastly, improved technology like the provision of ATM's can lead to customer loyalty. Achieving customer loyalty in banks is challenging given that the banks suppliers are at the same time its clients.

Banks set up financial systems that enable investment in businesses through facilitating efficient conduct and settlement of money transactions, provision of advice and specialized financial services to businesses and individuals by mobilizing savings and directing them to profitable investment areas. Banks accept depositors' funds and invest them in financial instruments like personal loans, investment loans, and mortgages. As a result, a basis for both personal and economic growth would be set. They provide savings products in both fixed and non-fixed term regimes, receive and pay salaries to their salaried account holders, move funds from one point to another and provide financial advice to clients. Other services include lending, investment services, custodian services, mortgage financing, trade financing services like letters of credit and import financing for firms that need bigger loans; agency services, insurance and giro services.

To increase efficiency, the government licensed many banks to operate creating competition hence have a banking industry that takes care of the growing needs of customers. However, competition that is so desirable has been reduced to an oligopoly of about four major banks that control more than 60% of both total assets and deposits (Ouma, 2003). They discriminate customers through setting of inordinate fees and rules meant to increase their incomes at the customer's expense (Ouma, 2003). Due to high concentration in this industry and stiff competition, Central bank of Kenya (CBK) urged small banks to merge to increase competitive pressure on the four as well as survive the harsh regulatory environment hence become viable and sustainable institutions (Ouma, 2003). However, a number of small banks still operate on their own creating intense competition among them. It is in this category that Kenya Post office savings bank (POSTBANK) falls.

POSTBANK, was created by an Act of Parliament CAP 493B in 1978 to provide saving facilities to small savers. This Act made the bank autonomous from the defunct Kenya Posts and Telecommunication Corporation (KPTC). Its is a government owned bank having its headquarters in Nairobi with six regions in the country. The bank also uses post offices hence have a large number of outlets comprising of 70 full branches and 330 post offices. Therefore, most people can access minimal banking facilities that include fixed deposits, receiving and payment of salaries, savings, and financial advices to customers. Other products include savings accounts, save as you earn, premium savings accounts, Bidii account, money transfer service, fixed deposit scheme and visa card.

Banks are very essential for economic growth because they provide investment funds to those who desire. However, competition among the banks stimulate the need to hold on to the present customers besides attempting to get new ones. Bank management institute retention programmes for their customers that include selling additional products alongside their perennial products, working on customer complaints, having a loyal workforce, reaching out to customers and making use of new technology in their daily operations. These strategies lead to significant number of factors that can tilt customers towards certain banks. It is therefore essential to determine the impact that such factors have on customer loyalty.

1.2 Statement of the Problem

While the importance of customer loyalty has been recognized in the marketing literature for at least three decades (Howard and Sheth, 1969), measuring and evaluating customer loyalty to banks in Kenya has not been adequately addressed. Some variables like trust, customer satisfaction, perceived value and firm's image among others greatly contribute to customer loyalty in any business establishment. However, it is not known how these variables among others affect customer loyalty in banks.

1.3 Objectives of the Study

The general objective of the study is to analyze the factors that affect customer loyalty in banks.

The specific objectives of the study are to: -

(i) Find out the factors that affect customer loyalty in Kenyan banks;

(ii) Determine how these factors affect customer loyalty in Kenyan banks.

1.4 Research Hypotheses

The supporting hypotheses for the study are: -

(i) Customer Loyalty in Banks is only affected by Customer Satisfaction, trust, corporate image, and perceived value;

(ii) Factors affecting customer loyalty equally influence customer loyalty in banks.

1.5 Importance of the Study.

The study seeks to find out the main factors that affect customer loyalty in Kenyan banks and rank them according to effectiveness. It will shed light on which factors should be emphasized on in order to improve loyalty levels among customers towards organisations.

1.6 Scope and justification of the Study

Knowledge of customer loyalty will enable banks determine the level of customer satisfaction. Consequently, banks can tailor their products and services to the customers' expectations and needs. Hence and eventual reduced advertisement cost with the funds being directed into other essential requirements for smooth operation. The study's findings will provide flexibility for practitioners and researchers by proposing factors that influence customer loyalty and how essential they are in retaining customers in banks.

To the bank management, this information could make their products and services more competitive for they can easily evaluate investment, segment markets/channels,

manage communications and promotions. To the government, the results can provide a basis for establishing a policy towards regulation of banks that should enable them operate within a framework where they are able to institute programmes to retain their customers. Banks can also utilize the information gathered to institute programs that will change the preference of customers towards them. It is hoped that results of the finding will be instrumental in reducing the number of dormant accounts in banks.

1.7 Limitation of the study

POSTBANK was chosen, even though there are other banks in Kenya, because the bank has number of positive attributes that cut across the entire banking sector. For instance, it can effectively deal with corporate as well as small savers. Rift valley region was chosen, even though the bank has other branches, because it was convenient since the researcher is located within this region. Secondly, the eventual cost of the study was reduced tremendously.

Given that, POSTBANK has contractual agreements with post office, as their agent, then assessment of the bank's customer loyalty meant assessing post office customer loyalty as well. Difficulties arose hence the study was limited to customers who directly use the bank's facilities in eleven branches of Rift valley region. Due to differences in the bank's environments and culture, the results of the finding are limited in terms of generalizing to other regions of the bank. However, since the bases and principles behind establishing of banks are largely similar, this limitation was reduced.

The analysis procedures have basic assumptions. These assumptions are that the population observations have no selection bias, no outliers, they are Linear and the factor interpretations and labels have face validity. Underlying dimensions shared by clusters of variables are also assumed.

1.8 Definition of Terms as used in the research

Cost: It is defined as the amount incurred on or attributed to a specific activity or item.

Customer loyalty: Customer loyalty was defined as the motivation to continue the relationship, to talk favourably about the supplier, and to expand the relationship. Customer Loyalty is as a condition of strong involvement in the repurchase, or reuse, of a product or brand. This involvement is strong enough to overcome the 'situational' and 'competitive' influences, which might drive a "variety seekers" or a switching behavior.

Dimensions of Service Quality: Elements of Service Quality measurement introduced by Parasuraman, Berry and Zeithamal (1988) and include Reliability, Assurance, Tangibles, Empathy and Responsiveness.

Market relation: A relationship that is based on the products and services that exist between a client and a firm

Marketing in Banking: Identifying present and future markets that are profitable and assessing current and futuristic needs of customers in market (Mclver and Naylor, 1986)

Perceived value: It is the service utility relative to its monetary and non-monetary costs, assessed by the consumer and based on simultaneous considerations of what is received and what is given up to receive it.

Product diversity: Refers to the range of products that are offered by any business organization

Service quality: Samuel (1999) defines it as the totality of features and characteristics of product and service that bears on the ability to satisfy or imply customers' needs. Although this definition has been adopted by the international standards organization a number of scholars support the definition of quality as "what the customer says it is".

SERVQUAL: Service quality measurement tool as proposed by Parasuraman, Berry and Zeithamal (1988).

Total Quality Management: It is a philosophy that firms practice aimed at controlling both human and material resources in the most effective way to achieve the desired outcome.

Trust	It is the perception of reliability that, in a buyer's view, is based on the sequence of transactions characterized by the confirmation of expectations regarding performance and satisfaction (Costabile, 1998).

CHAPTER 2: LITERATURE REVIEW

2.1 Marketing in Banking

Marketing in banking means that services are managed to achieve set goals. Consequently, bankers have a responsibility of persuading customers to entrust them with their funds, accept investment advice, and sometimes manage business of their customers.

Since basic management principles apply to both management of services and products, there is historical lack of interest in services. Bitran and Lojo (1993) attribute this to little understanding of differences that exist between management of products and services. Bitran & Lojo (1993), Parasuranam et al (1993) and Zeithamal et al (1996) noted six differences namely services are usually perishable, variable, simultaneity, intangible, heterogeneous, and not owned by the buyer. Mwaura (2002) asserted that service opportunities occur only once and cannot be replicated hence perishable. Service providers are obligated to ensure that capacity and demand patterns are commensurate.

Kotler (2000) asserted that services are highly variable since they greatly depend on their provider, when and where they are produced. Since production and consumption of services occur at the same time, consumers' participation becomes critical if performance in providing quality service is to be increased. Since services cannot be tasted, heard, felt or smelled before purchasing (Berry, 1980) customers are forced to form opinions and attitudes based on previous experiences. Firms have to seek opinions from customers in order to get feedback on services. Difficulties arise in trying to maintain consistently high service level because customers' opinions are

individualistic. Hence daily monitoring of customer reaction to service provision is essential (Cannon, 1980). Also lack of ownership is likely to lessen a customer's perceived value of the service making them less desirable than products

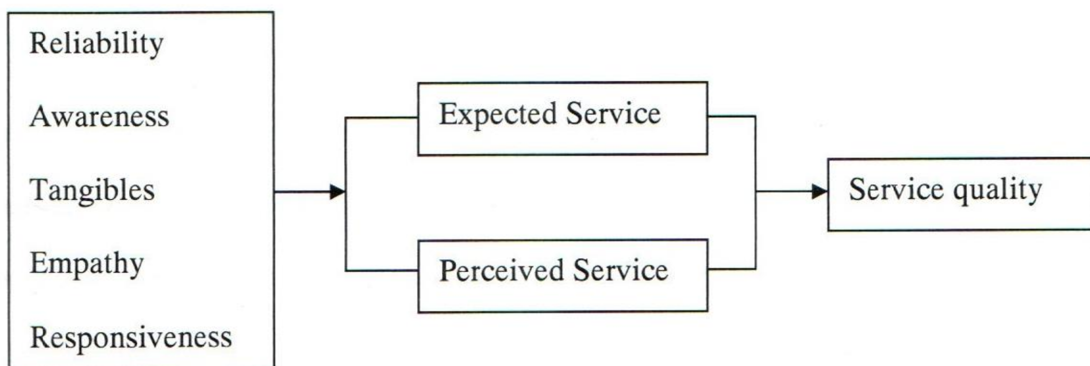
In determining customer loyalty, the rating of service quality plays a significant role as it leads to customer satisfaction which influences repeat transactions. Like other business organizations, banks should adopt the use of Total Quality Management (TQM). Consequently, banks will achieve operational efficiency by reducing time and resource wastage and replacing unsatisfactory services. Customers would notice this improvement in services rendered and would most probably like to continue enjoying these services.

Since service quality is inferred from experiences, perceived quality is emphasized. Perceived quality cannot be objectively determined because customers judge products and service qualities based on different important attributes such as product characteristics like reliability and performance that differ among them (Aaker, 1996). Attitudes of consumers towards products will generally be influenced by consumer perception of quality service (Paliwoda, 1993).

Perceived quality can be said to be the degree to which a product or service is uniquely positioned and perceptually differentiated from its competitors. It is judged based on a variety of intrinsic and extrinsic informational cues that they associate with the product thereby providing a basis for perceptions of products and service quality (Schiffman & Kanur, 1997).

The research marketing team of Parasuraman, Berry and Zeithmal (1988) used SERVQUAL for service quality measurement. It has 22 test items where respondents' first rate the service provider based on their expectations and later rate the same test items based on the actual service delivery thus showing their perceptions rate these items on a seven-point scale. The mean of the gap difference between perception and expectation for all items showed the SERVQUAL score with low service quality being signified by a negative score. The team viewed perception of service quality as the discrepancy between customer's expectations or desires and their perceptions. SERVQUAL evolved into five dimensions namely Tangibility, Reliability, Responsiveness, Assurance and Empathy.

Figure 1: Parasuraman et al's Model of Service Quality



Source: Parasuraman, Zeithmal and Barry (1988)

Despite several criticisms leveled against it, SERVQUAL has performed better than any other measuring instrument. Buttle (1996) criticized it for failing to draw assumptions from any established economic, statistical and psychology theory. Hence, it offered little evidence that customers' assess service quality by the gap between their perceptions and expectations. Cronin and Taylor (1992; 1994) criticized the instrument because its proponents failed to provide a concrete definition of perceived service quality in attitudinal terms. SERVQUAL received support from Robinson

(1999) who claimed it was more scientific in scale development. In assessing customer loyalty, there could be need to bridge the gap between customer perception and expectations which may require SERVQUAL measurement.

2.2 Service Quality and Customer Satisfaction

Rust and Zahorik (1993) noted service quality could be effectively managed if the concept of satisfaction is clearly understood. Rust and Oliver (1994) describe customer satisfaction as the customer's fulfilment response hence a process in which satisfaction is viewed as largely based on meeting or exceeding expectations. This means that there is a close link between customer satisfaction and service quality. Hence service quality can be used to indicate the level of customer satisfaction. This can be done with measurement of dimensions of service quality.

Hence banks that are committed to delivering high quality service must pursue consistence of customer satisfaction. From these considerations, bank management should measure the overall customer satisfaction and attempt to understand the nature of service quality and interactions between customer value and service quality. Cerchiaro & Ayrosa (2003) found that service quality, future purchase intentions, and customer satisfaction are related when comparing perception of service quality in Brazilian and British banks. They found that customer satisfaction and overall evaluation of service quality were related to the same factors in both countries. For British banks dependability of the service closely matched customer satisfaction and service quality while for Brazilian Banks, assurance brought the link between service quality and customer satisfaction.

2.3 Customer Loyalty

Customer loyalty implies allegiance and faithfulness resulting in a continuing relationship that is part of the way in which products are supplied to the market. Loyalty is an emotional feeling of commitment where past memories lead to current and future obligations. Loyalty is divided into transactional loyalty, perceptual loyalty and complex loyalty. Transactional loyalty relates to a customer's buying behaviour changing but what motivates that change is not clear. In perceptual loyalty, attitudes and opinions reflect possible buying behaviour in future. Complex loyalty relates to a combination of transactional and perceptual loyalties

Oliver (1997) identified four sequential stages in developing customer loyalty. First is cognitive loyalty where the customer purchase with a belief the offer is superior. Secondly, the customer is affectively loyal that is achieved after repeat purchases. Third, the customer is conatively loyal where there is high involvement and purchases are intentional. The last stage is action loyalty where actions are taken with the desire to overcome every possible obstacle that might hinder purchasing the brand to which a person is loyal.

Banks should make an attempt to move from cognitive loyalty to action loyalty since retaining customers is financially less expensive than attracting new customers (Reichheld and Schefter, 2000). Aaker (1991) noted that brand loyalty leads to certain marketing advantages such as reduced marketing costs and increased business due to customer base and greater trade leverage. Donogh (2000) reported that attracting and retaining customers could be attributed to core services and trust builders. She gave favorable return policy, selection and choice of merchandise, rewards programs and

promotions as examples of core services and good staff attitude, accurate product information, delivering on advertising promises, knowing the people and being recognized as examples of trust builders.

2.4 Customer Purchasing Behaviour and Loyalty

Customer satisfaction and relationship marketing greatly contribute to the understanding of customer behaviour especially towards a brand, store or supplier. Lewin (1936) reported that trust and loyalty are both grounded on the experience of satisfaction accumulated over time. Therefore customer satisfaction resulting from market transactions is connected to trust and repurchase decisions. However, high levels of satisfaction do not necessarily lead to high level of customer loyalty due to other intervening variables (Oliver 1999).

Besides trust other features of the most stable and durable relationships are commitment, stability, interaction, power, influence, dependence, reciprocity and co-operation. Commitment is the durable desire to maintain an important relationship. Morgan and Hunt (1994) identified determinants of commitment as trust, the degree to which customers and firms share the same values (value congruence), the level of shared aims in the relationship (goal congruence), the value of the benefits deriving from the relationship, as well as the costs which interrupting the relationship would cause. Gruen (1995) linked commitment to satisfaction deriving from the perceived equity in the exchange process

2.5 Empirical Studies

Murugu (1998) realized that only 3% of respondents at HFCK were very satisfied with the service offered. He noted major service gaps in several aspects that are attributed to service provider failure to greet customers and service time being below expectation since 43% of respondents indicated negative perceptions. Odhiambo (2003) reported that customer satisfaction is affected by eleven factors at varying levels. These factors were customer service, knowledge by staff, service reliability, service access, responsiveness, security, service assurance, pricing, credibility, and service equity/fairness. Although these factors applied to mobile phones, they can also have an effect on customer satisfaction in the banks.

Murigi (2003) asserted that customers consistently want certain attributes like ease of use, timeliness, and certainty in virtually all service products. In this respect, Banks should identify which customers to serve and the effective means of serving them like the use of Telephone, Branches, Internet, Vsat, etc. Banks should identify the products to offer, set the prices to charge, define and document how they process jobs and identify key stakeholders. They should agree and communicate how service management works with other parts of service delivery, challenge inefficient processes and practices and identify the opportunities to improve service, reduce or control costs and improve the operational profile. After descriptive analysis, she concluded that customer satisfaction is what drives repeat business.

Both Njoroge (2003) and Nyaoga (2003) studied service quality at Kenya power and lighting Company. Njoroge (2003) pointed out that management performance targets partly four important service quality dimensions of reliability, responsiveness,

competence, and access to service. Nyaoga (2003) concluded that customers were dissatisfied with the service level offered by the organization because the firm did not have a satisfying customer education programme. This is because there was high frequency of corrupt practices, high cost of service, constructions taking too long even after payment, no staff to attend to customer queries and long periods required to process new applications.

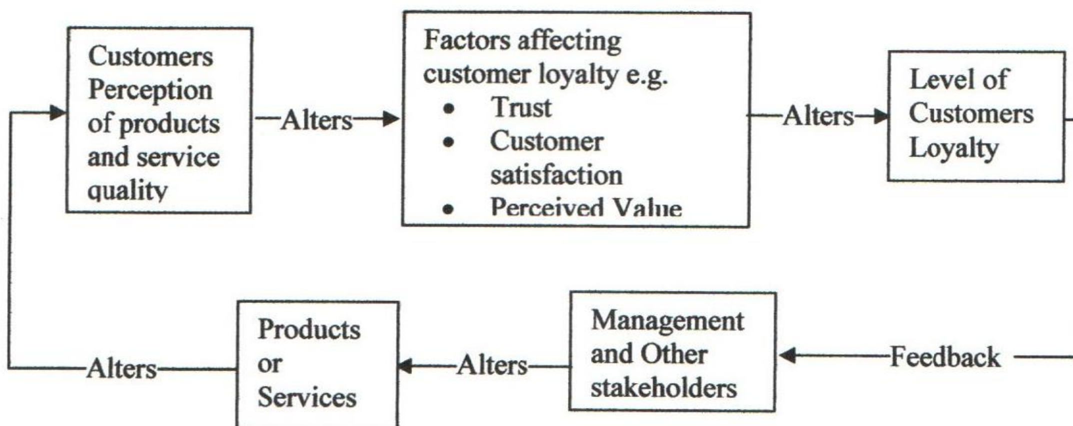
Mwandikwa (2003) found out that 17.6% of his respondents continued receiving banking services in their respective banks for more than eleven (11) years without changing them. This proved that the old saying that "you only pick your bank once then stay with it for a lifetime" does not apply. Banks have to work just as hard to retain customers as they do to attract them through development of better products and services.Technology advancement (automation) seems to be the most important feature of Bank customers.

Kandie (2003) concluded that customers' expectations of service quality in Kenyan Banks were very different from their perceptions. In addition, he noted that there are certain critical factors that Banks should focus in order to provide quality service. These include neat looking personnel, safety for customers, knowledgeable personnel, modern and visually appealing equipment and facilities, enhanced service quality, prompt service delivery, bank employees behaviour, visually appealing bank materials and convenient operating hours.

2.6 Conceptual Framework.

Customer loyalty requires banks to focus on factors that affect its ability in maintaining the old customers. This includes having highly differentiated Products that differ from those of competitors, higher-end products where price is not the primary buying factor, products that have a high service component and multiple products meant for the same customer. Given that banking is a channel through which consumers receive money related products/services, trust, customer satisfaction with bank services, perceived value of products/services provided by the bank, the firm image should work together to influence the decision to participate in repeat transactions with a particular bank.

Figure 2: Model of Study of Customer Loyalty



Source: Own (2007)

Service quality determines how products are offered to customers leading to either the customer being satisfied or disenchantment. By asking the customers of their individual assessment of the service and products offered, management gets feedback, which it uses to either enhance the service or change the products offered hence altering customer loyalty.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design

The research problem was carried out using a survey. It involved data collection from bank customers using a structured questionnaire. The questionnaire had items meant to pick customer satisfaction levels regarding service offered, level of trust on bank, their perceived value on products and services offered and level of loyalty. This method was selected to enable capturing of the current situation on selection of banks by customers with the consideration of the high competition and dynamism in the banking industry.

3.2 Target Population.

The study targeted customers in 11 branches of Postbank in Rift Valley Region whose number is 253,967 (POSTBANK Database, December 2006). Responses were sought from a sample of 254 customers that is expected to be a representative sample of all the customers.

3.3 Sampling Design

Table 1: Number of customers per branch and respondents selected.

Branch	No. of Customers.	No. of Respondents.
Bondeni	6012	6
Eldoret	60365	60
Kabarnet	8491	9
Kapsabet	9721	10
Kericho	20658	20
Kitale	27888	28

Branch	No. of Customers.	No. of Respondents
Molo	8530	9
Naivasha	24670	25
Nakuru	63724	63
Narok	8095	8
Nyahururu	15813	16

Source: Own (2007)

Stratified sampling was applied and 254 respondents picked such that each branch in the region was adequately represented in the study. Choosing this region reduced the study's cost for the researcher and it is expected that the region will provide a sample that represents most of the cultural elements of diverse communities in Kenya. The region of study has eleven branches namely Nakuru, Kitale, Kericho, Karbarnet, Eldoret, Naivasha, Kapsabet, Nyahururu, Bondeni, Narok and Molo. Table 1 shows how respondents will be selected.

3.4 Data collection.

The study used primary and secondary data. Primary data was gathered by a structured questionnaire with test items related to bank services. Information on various variables affecting customer loyalty as viewed by customers when seeking services and products at POSTBANK was collected. Research assistants administered the questionnaires, guiding those unable to complete the questionnaires on their own.

Secondary data was obtained from records at POSTBANK, written sources like textbooks, journals, magazines, reports from various libraries; Internet also provided some useful data.

3.5 Data Analysis and Test of hypothesis

To achieve the objectives of the study, statistical tests were done to determine the relationships and influences that exist among factors affecting customer loyalty. Exploratory factor analysis and Kruskal-Wallis ANOVA were used to test the two hypotheses.

EGERTON UNIVERSITY LIBRARY

The factors that affect customer loyalty were varied and unknown. The assumption was that there was a linear relationship between this factors and customer loyalty. However, these factors were also dependent on a number of other variables. The algebraic model to test the first hypothesis for this research project was as follows:

$$X_j = A_{1j}F_1 + A_{2j}F_2 + A_{3j}F_3 + \ldots\ldots\ldots\ldots + A_{mj}F_m + U_j$$

where:

X_j	=	Customer loyalty
$A_{1j} \ldots\ldots A_{mj}F_m$	=	Coefficients
$F_1, \ldots F_m$	=	Function, f ( ) of unknown variables representing factors affecting customer loyalty that are to be identified by the research analysis.
$U_1, \ldots U_j$	=	Constants

The variables in the independent factor may be related in unknown ways but the factor itself has a linear relationship with the dependent variable, customer loyalty. Factor analysis, besides determining the loadings, A_{ij}, factor analysis generated factor scores for each customer on each of the Factor functions uncovered. These factors scores, along with the data on customer loyalty give a mathematical relationship among the data obtained.

In testing the first hypothesis, principal components analysis was used where the researcher sought a linear combination of variables so that the maximum variance was extracted to determine factors affecting customer loyalty in banks. These factors were captured from the variables indicated in part A of the questionnaire. In this analysis,

data was arranged in the R-mode where the rows represented customers, columns indicated the variables, and cell entries were scores of the customers on the variables.

The factors were extracted by principal component analysis with rotational method being varimax with Kaiser normalization. Both the Kaiser criterion and the scree plot were simultaneously used to determine the factors affecting customer loyalty in banks. These factors were then compared to the already mentioned factors namely customer satisfaction, trust, corporate image and perceived value to determine if these were the only factors determining customer loyalty.

In testing the second hypothesis that factors affecting customer loyalty equally influence customer loyalty in banks Kruskal Wallis ANOVA was applied. The scores for each factor were averaged and then grouped. These average scores were then tested by Kruskal Wallis ANOVA at 0.05 significant level to determine if they equally affect customer loyalty.

The calculated H value was compared to the critical value obtained from tables. The hypotheses were accepted if the computed value of H statistic were less than the tabulated values. If the computed value of H statistic is more than the tabulated value, the hypotheses were rejected.

CHAPTER 4: DATA ANALYSIS AND DISCUSSIONS OF FINDINGS

4.1 General Findings

This chapter illustrates data analysis and discussion of findings on data collected. From a total of 254 questionnaires that were distributed, a total of 200 questionnaires were received back. Some questionnaires were duly completed hence providing useful data. Since 54 questionnaires were not received back the response rate was 78.7%. This response rate is considered significant enough to provide a basis for valid and reliable analysis of the factors that influence customer loyalty in financial institutions. Table 2 shows the responses from each branch.

Table 2: Number of customers per branch and respondents selected.

Branch	Expected Respondents	Actual Respondents	Branch	Expected Respondents	Actual Respondents
Bondeni	6	5	Molo	9	7
Eldoret	60	45	Naivasha	25	20
Kabarnet	9	8	Nakuru	63	55
Kapsabet	10	5	Narok	8	6
Kericho	20	18	Nyahururu	16	11
Kitale	28	20			

Source: Survey Results (2007)

As observed from table 2, each branch had responses. All branches had responses above 70% other than Kapsabet and Nyahururu which had 50% and 68.75% respectively. Although these responses were below expectations, the results were used in the study. This may limit generalisation of the results. However, the effect of this limitation could be reduced by responses of customers from other branches. This is because they were 2 branches out of 11 which translate to 18% of the branches.

From the 200 questionnaires received, a total of 10 questionnaires had one or two questions having no responses. In determining the factors affecting customer loyalty in Banks, these questionnaires were however used and the missing values were replaced by the average. This means that 78.7% of the sample was used to determine factors affecting customer loyalty. The mean gives an average indication of a respondent perceived ranking for the test items.

4.1.1 Perceived Risk of Moving from one financial institution to another

Table 3: Perceived Risk Associated With Moving

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not very Important	36	18.0	18.0	18.0
	Not Important	36	18.0	18.0	36.0
	Somewhat Important	30	15.0	15.0	51.0
	Important	36	18.0	18.0	69.0
	Very Important	62	31.0	31.0	100.0
	Total	200	100.0	100.0	

Source: Survey Results (2007)

Table 3 shows the responses received for perceived risk associated with moving. 18% felt that it was "not very important" when deciding to move from one bank to another. A similar percentage felt that it is "not important" in their decision. 15% were not decided how it would affect them, 18% felt that it was "important" and 31% felt that it was "very important" in making the decision. This means that on average 49% percent of customers would consider perceived risk associated with moving if they were to move from their current bank, while only 36% will not consider the risk associated with this movement. Management should therefore make this risk lower than those of competitors if they were to retain more customers.

4.1.2 Ease of Getting to other Banks

Table 4: Ease of Getting to other Banks

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not very Important	28	14.0	14.0	14.0
	Not Important	25	12.5	12.5	26.5
	Somewhat Important	40	20.0	20.0	46.5
	Important	46	23.0	23.0	69.5
	Very Important	61	30.5	30.5	100.0
	Total	200	100.0	100.0	

Source: Survey Results (2007)

From table 4, 14% and 12.5% of the respondents felt that it was "not very important" and it was "not important" respectively. This means that they do not consider Ease of getting to other banks an item they would consider if they were to move. However, 23% and 30.5% of the respondents consider ease of getting to other banks if they were to move. Therefore, 26.5% of the respondents would move irrespective of the location of the bank they are moving to while 53.5% wouldn't move if the location of the bank makes it difficult to get to the bank. Location of the bank is therefore important if more customers are to be retained. That is 53.5% would move if the location of the bank makes it easier for them to get to the bank.

4.1.3 Ease of Getting Information from other Banks

From Table 5, 14% of the respondents felt that ease of getting information from other banks was "not very important" if they were to move. A similar percentage 14% of respondents felt it was "not important" when deciding to move. 21.5% and 24.5% of the respondents felt that it was "important" and "very important" respectively if they were to move. Therefore 28% of respondents do not consider information important while 46% find it important and essential in making their decision to move. Banks

therefore need to provide sufficient information if they were to retain and get more customers. This information should also include what the competition is doing and how the bank effectively counters it.

Table 5: Ease of Getting Information from Other Banks

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not very Important	28	14.0	14.1	14.1
	Not Important	28	14.0	14.1	28.1
	Somewhat Important	51	25.5	25.6	53.8
	Important	43	21.5	21.6	75.4
	Very Important	49	24.5	24.6	100.0
	Total	199	99.5	100.0	
Missing	System	1	.5		
Total		200	100.0		

Source: Survey Results (2007)

4.1.4 Cost Involved in Changing Banks

Table 6: Cost Involved in Switching

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not very Important	16	8.0	8.0	8.0
	Very Important	32	16.0	16.1	24.1
	Somewhat Important	32	16.0	16.1	40.2
	Important	22	11.0	11.1	51.3
	Very Important	97	48.5	48.7	100.0
	Total	199	99.5	100.0	
Missing	System	1	.5		
Total		200	100.0		

Source: Survey Results (2007)

As indicated in Table 6, 8% of the responds believe that the cost involved in switching was "not very important" when deciding to move out of a bank. 16% felt that it was "not important" to consider this item, 11% felt it was "important" and 48.5% felt that it was "very important". The indication was that 24% would not consider the cost involved when switching while 59.5% would consider this cost

before changing from one bank to another. This means that cost associated with movement is essential in determining how customers would be retained. There is need to keep transaction cost lower than the cost for switching.

4.1.5 The Transaction Cost Involved

As shown by table 7, 3% of the respondents felt this was "not very important" when deciding to move and 12.5% of the respondents did not find this variable "not important". Also the same percentage, 12.5%, found this variable "important" and 57% found this "very important" when deciding to move to a new bank. This means that 15.5% would not consider transaction cost and 69.5% percent would consider these costs anytime they decide to move. The results indicate that transaction costs should be made competitive if more customers are to be retained in a particular financial institution.

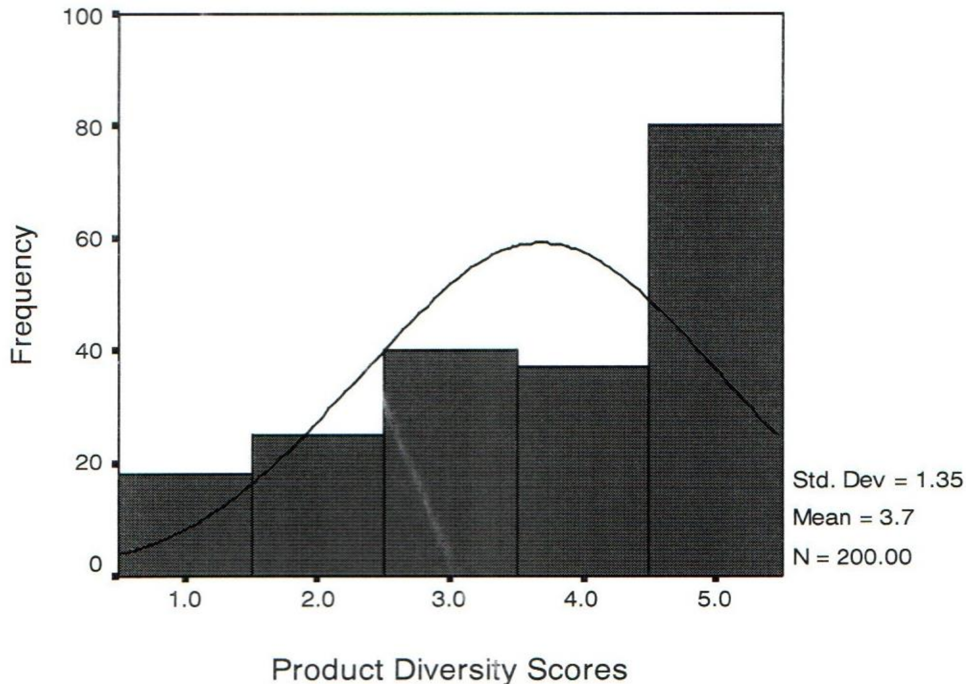
Table 7: The Transaction Cost Involved

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not very important	6	3.0	3.0	3.0
	Not Important	25	12.5	12.5	15.5
	Somewhat Important	30	15.0	15.0	30.5
	Important	25	12.5	12.5	43.0
	Very Important	114	57.0	57.0	100.0
	Total	200	100.0	100.0	

Source: Survey Results (2007)

4.1.6 Product Diversity

Figure 3: Product Diversity



Source: Survey Results (2007)

Product diversity results indicate that 18 respondents out of 200 view this variable "not very important" in decision making regarding switching banks. This translates to 9% with a further 12.5%, resulting from 25 respondents, found it "not important". This means that a total of 21.5% of the respondents did not value this variable at all. However, 18.5% from 37 of the total respondents found product diversity important in arriving at a decision to leave. Also 40%, arrived at from 80 respondents, find product diversity very important when they have to switch banks. Therefore 58.5% believed that product diversity is essential in making a decision to switch banks. Financial institutions should therefore place emphasis on their product lines. This means they should make sure that more products are available so that customers can select what is essential for them.

4.1.7 Length of Service Time

Service time plays a significant role in customer satisfaction. From Table 8, 60.5% of the respondents stated that service time was "very important" in deciding to change banks. Further 14% respondents believe that it was "important" if a decision to move has to be reached. This translates to a total of 74.5% respondents finding service time to be important. Such a percentage cannot be compared to 5% who found "not very important" and 8.5% who found it "not important" translating to only 13.5% of respondents. Banks should therefore improve the service time, by reducing the time customers spend in their banks. This could involve seeking for ways of applying the queuing theory.

Table 8: Length of Service Time

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not very Important	10	5.0	5.0	5.0
	Not Important	17	8.5	8.5	13.5
	Somewhat Important	24	12.0	12.0	25.5
	Important	28	14.0	14.0	39.5
	Very Important	121	60.5	60.5	100.0
	Total	200	100.0	100.0	

Source: Survey Results (2007)

4.1.8 Information on Products offered

Getting information about a new venture one is about to take is always desirable. If less information is provided then the saying "better the devil that I know than the angel that I don't know" may suffice. As indicated in Table 9, 5.5% of the respondents felt that this was "not very important", 11% felt that it was "not important". The total number of respondents that do not attach importance to this variable were 33 translating to 16.5%. Further, 24.5% of the respondents felt that information on products offered was "important" and 35.5% considered this

information "very important" to their decision to leave or remain with a particular financial institution. A total of 120 respondents attached importance to information of products offered totaling 60% of the respondents. Banks should therefore ensure that they provide accurate and sufficient information on the products they offer.

Table 9: Information on Products Offered

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not very Important	11	5.5	5.6	5.6
	Not Important	22	11.0	11.1	16.7
	Somewhat Important	45	22.5	22.7	39.4
	Important	49	24.5	24.7	64.1
	Very Important	71	35.5	35.9	100.0
	Total	198	99.0	100.0	
Missing	System	2	1.0		
Total		200	100.0		

Source: Survey Results (2007)

4.1.9 Modern Looking Facilities

Table 10: Modern Looking Facilities

		Frequency	Percent	Valid Percent	Cumulativ e Percent
Valid	Not very Important	17	8.5	8.5	8.5
	Not Important	26	13.0	13.1	21.6
	Somewhat Important	51	25.5	25.6	47.2
	Important	47	23.5	23.6	70.9
	Very Important	58	29.0	29.1	100.0
	Total	199	99.5	100.0	
Missing	System	1	0.5		
Total		200	100.0		

Source: Survey Results (2007)

Modernization of facilities is essential in attracting customers because a number of people value aesthetics in their daily life. Table 10 shows that 8.5% felt modern looking facilities was "not very important" to them and 13% felt that it was "not important" when choosing a bank. This means that 21.5% of the respondents did not

attach any importance to Modern looking facilities. But 23.5% of respondents felt that modern looking facilities were"important" while 29% felt that it was "very important" to them when choosing a bank. Therefore, 52.5% attached importance to Modern looking facilities. Banks should modernize their banking facilities to retain customers.

4.1.10 Security on Making Transactions

Table 11: Security on Making Transactions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not very Important	8	4.0	4.0	4.0
	Not Important	16	8.0	8.0	12.1
	Somewhat Important	29	14.5	14.6	26.6
	Important	28	14.0	14.1	40.7
	Very Important	118	59.0	59.3	100.0
	Total	199	99.5	100.0	
Missing	System	1	.5		
Total		200	100.0		

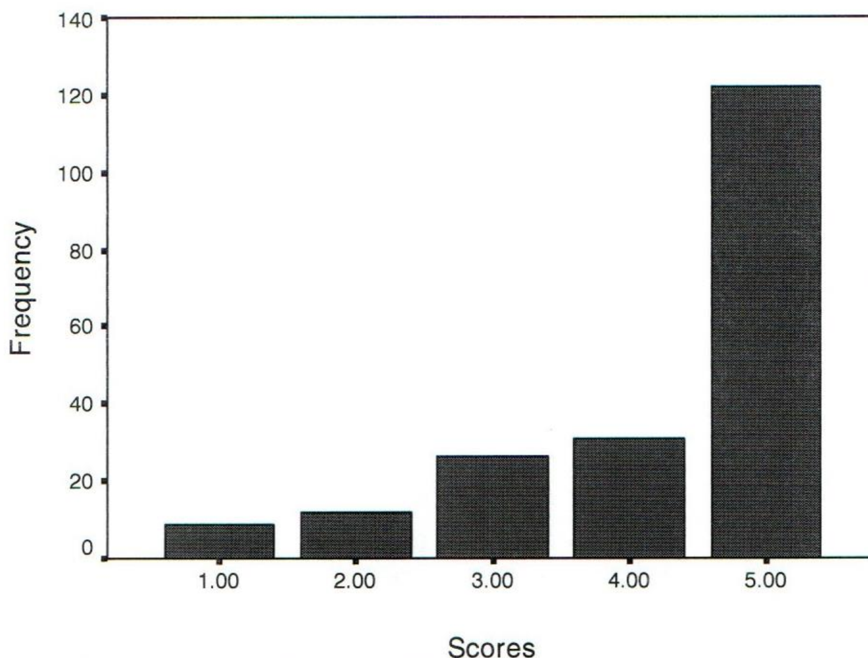
Source: Survey Results (2007)

Many people view security as essential especially in matters dealing with finance. Individuals would therefore avoid a bank if they are not sure that their finances would not only be safe but also should be known to them only. Table 11, clearly shows this trend as 59% of the respondents felt that security of making transaction was very "important" in determining where they chose to bank their money. In addition, 14% felt that it was "important" to them in making the decision on where to bank their funds. However, 4% and 8% believed that security of making transactions was "not very important" and "not important" respectively. This meant that 73% considered security of making transaction while 12% do not consider this variable. It is important for banks to ensure that there is security of making transactions when handling

customers. For example, when paying a customer a big sum of money from his account, he should not be exposed to other persons.

4.1.11 The Quality of Service

Figure 4: The Quality of Service.



Source: Survey Results (2007)

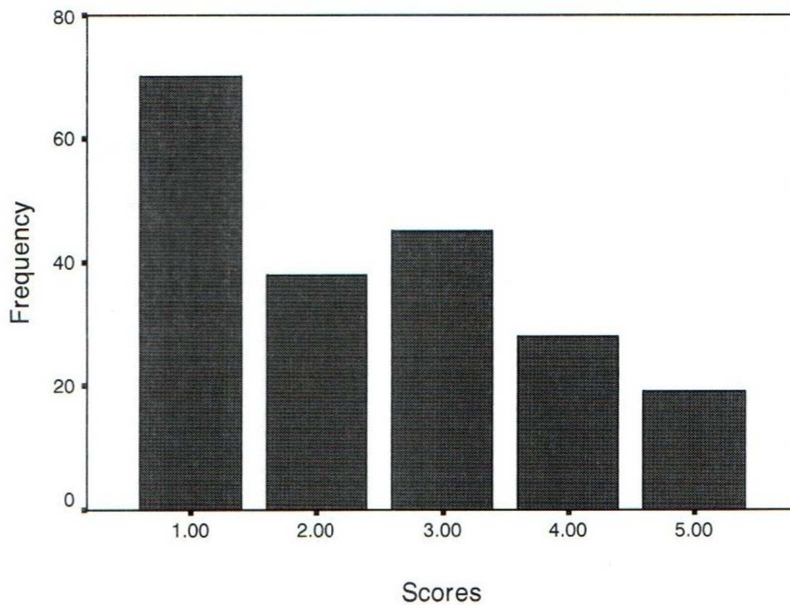
The quality of service signifies how people view the services offered by the bank in making decision regarding continuing to do business with a particular bank. As seen in Figure 4, 9 from 200 respondents did not find the quality of service "very important" in their decision to move from a bank. Also 12 of the 200 respondents felt that service quality was "not important" in their decision to leave a bank. This translates into 10.5% of the respondents not considering the quality of service when deciding to leave or remain with a particular bank.

31 of the 200 respondents felt that the quality of service was "important" in making their decision and 122 of the respondents felt that the quality of service was "very

important" in making their decision. This translates into 76.5% of the respondents considering the quality of service when deciding the bank to join or leave. This means that banks should improve on the quality of service if they are to retain more customers.

4.1.12 Influence on customers by Close Friends

Figure 5: Influence from Close Friends



Source: Survey Results (2007)

Figure 5 shows how close friends influence the decision to leave a bank. Seventy from 200 respondents translating to 35% of the respondents felt that it was "not very important" to them when making the decision to leave or remain with a particular bank. Also 38 from 200 respondents translating to 19% of the respondents felt that influence from close friends was not important" in their decision.

Twenty eight respondents from a total of 200 felt that influence from close friends was "important" in their decision to leave or remain with a particular bank. Also 19

respondents from the total of 200 felt that influence from close friends was "very important" in their decision to leave or remain with a particular bank. This translates to a total of 23.5% of the respondents being influenced by their peers to join specific banks or remain with the said banks. This is a smaller percentage as compared to a total of 54% who felt that peer pressure doesn't affect their decision to leave or remain with a particular bank. Banks should therefore make use of network marketing to sway the few customers who can be influenced to join and remain with their bank

4.1.13 Payment of Negotiated Interest

Table 12: Payment of Negotiated Interest

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Very Important	66	33.0	33.0	33.0
	Not Important	42	21.0	21.0	54.0
	Somewhat Important	40	20.0	20.0	74.0
	Important	23	11.5	11.5	85.5
	Very Important	29	14.5	14.5	100.0
	Total	200	100.0	100.0	

The bank's paying of negotiated interest could play a crucial role in making decisions about which bank to join. This is because the bank could be trusted to keep its promises. Banks that change their interest are likely to encounter problems from the clients because of shifting the goal posts whenever it is convenient to them. Table 12 shows that 66 of the 200 respondents felt that, payment of negotiated interest was "not very important" to them when making the decision to remain or leave a bank. Further 42 of the 200 respondents did not find payment of negotiated interest "important" in their decision to remain or leave a bank. This translated to 54% of the customers who felt that interest payment was "not important" to them when deciding to leave or remain with a bank.

As evidenced by table 12, 23 and 29 respondents felt that payment of interest was "important" and "very important" respectively in their decision to leave or remain with a bank. This translates to 26% of the customers who felt that payment of interest was "important" to them. This means that banks may pay low negotiated interest rates because this variable affects fewer clients. Its influence on customer loyalty is minimal, although it plays a crucial role in building trust which is an essential item in banking.

4.1.14 Confidence in Bank's Managers and Workers

Table 13: Confidence in Managers and Bank Workers

		Confidence in Managers		Confidence in Workers	
		Frequency	Percent	Frequency	Percent
Valid	Not Very Important	16	8.0	11	5.5
	Not Important	33	16.5	21	10.5
	Somewhat Important	61	30.5	65	32.5
	Important	36	18.0	59	29.5
	Very Important	54	27.0	44	22.0
	Total	200	100.0	200	100.0

Source: Survey Results (2007)

Bank employees and managers are very essential in determining service quality which leads to customer satisfaction. Customer satisfaction is essential in determining the level of customer loyalty with a financial institution. This is because banks operate in the service industry and customer satisfaction greatly influences how customers are retained. Table 13 shows that, 8% of the respondents felt that confidence in management was "not very important" to them in their decision to leave or remain with a bank. Also, 5.5% of the respondents felt that confidence in other bank employees was "not very important" to them when deciding to remain or leave a bank. A further 16.5% felt that confidence in Bank's Management and 10.5% felt that

confidence in bank workers was "not important" when deciding to leave or remain with a bank. Meaning that 24.5% of the respondents felt that confidence in bank management would not affect their decision to remain or leave a bank. Also 16% of the respondents felt that confidence in bank employees would not affect their decision to remain with or leave a bank.

However, 18% of the respondents felt that confidence in bank management was "important" to them in their decision to remain or leave a bank. Also 29.5% of the respondents felt that confidence in bank employees was "important" to their decision to remain with or leave a bank. Further, 27% of the respondents felt that confidence in bank's management was "very important" to them when deciding to leave or remain with a particular bank. Also 22% of the respondents felt that confidence in bank employees was "very important" in their decision to leave or remain with a particular bank. Therefore, 44% of customers were greatly influenced by the management of the bank to remain or leave a bank while 51.5% were greatly influenced by the bank employees. Banks therefore must put in place a workforce that can be trusted in order to retain as many customers as possible.

Banks strive to make their services standardised and predictable. These enable customers to know the expected span of time they will spend in banking halls. It will portray a bad corporate image if branches of the bank have different standards of service. Some organisations have developed standards for service industry and usually issues certificates for those who meet certain criteria. An example is the ISO 9001: 2000 certification that is issued by International Standards Organisation. Such

certifications are withdrawn when the standards of service in the affected firms fall below the required standards.

Table 14: Standardized and Predictable Bank Services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Very Important	32	16.0	16.0	16.0
	Not Important	31	15.5	15.5	31.5
	Somewhat Important	66	33.0	33.0	64.5
	Important	39	19.5	19.5	84.0
	Very Important	32	16.0	16.0	100.0
	Total	200	100.0	100.0	

Source: Survey Results (2007)

Table 14 shows scores of the services at the bank are standardized and predictable. From the table 16% of the respondents felt that standardising services so that they are predictable was "not very important" to them when making decision to remain with or leave a bank. Also a further 15.5% of the respondents felt that making services standard and predictable was "not important" in their decision to leave or remain with a bank. This means that 31.5% of customers did not value standardisation of services nor being able to predict the services to be offered.

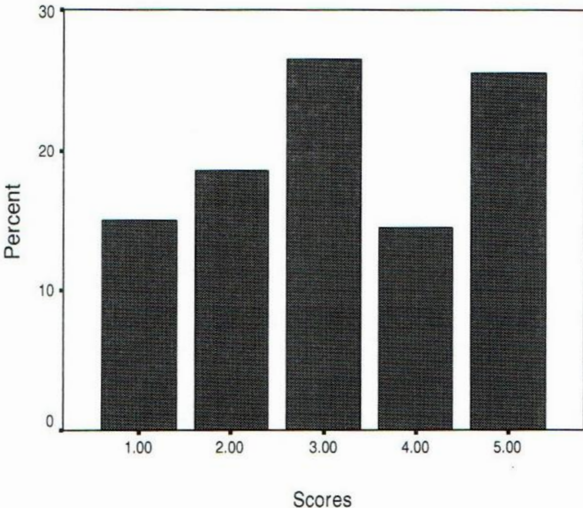
However, 19.5% of the respondents felt that making services standard and predictable was "important" and a further 16% of the respondents felt that making services standard and predictable was "very important" in their decision to leave or remain with a particular bank. Therefore a total of 31.5% did not value whether services were standard and predictable while 35.5% attached importance to services being standard and predictable. Banks should strive to make their services standardized so that customers can predict these services. This will retain the 35.5% of the customers and

the additional 31.5% who don't value these services might leave or remain based on other factors.

Customers would leave a bank if they get the slightest idea that the bank is exploiting them. For example, many customers leave if they have the notion that their bank has a habit of taking advantage of them and offering services at exorbitant prices. Since customers are the suppliers of the commodity in banks, the chances of noticing exploitation is high. Given this unique preposition, to maintain customer loyalty there is need to ensure that customer's do not feel that they are being exploited.

As evidenced by Figure 6, 15% of the respondents felt that the bank exploiting them was "not very important" when deciding to remain with or leave a bank. Also 18.5% of the respondents did not find the bank exploiting them "important" in their decision to remain or leave a bank. This means that a total of 33.5% of the customers did not place a lot of emphasis on the bank exploiting them when deciding to remain with or leave a bank.

Figure 6: The Bank does not Exploit Me



Source: Survey Results (2007)

However, 14.5% of the respondents felt that exploiting them would be "important" to them when making a decision about a bank. Also 25.5% of the respondents felt that exploiting them would be "very important" to them in making a decision about a bank. This means that 40% of the respondents put emphasis on the fact that the bank was not exploiting them as compared to 33.5% who did not value this. Banks should therefore ensure that they do not exploit their customers. This will retain 40% of the customers.

4.1.15 Banks and Automated Teller Machines

Table 15: Automated Teller Machines

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Very Important	140	70.0	70.0	70.0
	Not Important	13	6.5	6.5	76.5
	Somewhat Important	21	10.5	10.5	87.0
	Important	14	7.0	7.0	94.0
	Very Important	12	6.0	6.0	100.0
	Total	200	100.0	100.0	

Source: Survey Results (2007)

Current technology tends to sway people from one bank to another. One of the technologies that cause this movement is the availability of automated teller machines (ATM). This is because they free customers from the banking hours when the bank is open. Customers will be able to withdraw cash any time including Sundays or night times. It is therefore expected that people will tend to base their decision to remain with a particular bank on availability of ATM services. However, 70% of the respondents felt that availability of ATMs was "not very important" to them. This meant that it would not affect their decision to leave or remain with a particular bank. Also 6.5% of the respondents felt that availability of ATM was "not important" to them in their decision to leave or remain with a bank. Therefore 76.5% of the

customers did not consider availability of ATM crucial to their decision to leave or remain with a particular bank.

On the other hand, 7% and 6% of the respondents felt that availability of ATM was "important" and "very important" respectively in their decision to remain or leave a bank. This means that banks may install ATMs whenever they afford because its contribution to customer loyalty is minimal. Generally, the existence of ATMs will serve as an indicator of modernization of banks hence plays an important role.

4.2 Results of Test of Hypotheses

4.2.1 Testing the First Hypothesis

In order to test the first hypothesis that customer satisfaction, trust, corporate image, and perceived value are the only factors influencing Customer Loyalty in financial institutions, factors had to be extracted from the data set. Principal component factor analysis was used to establish the factors. To achieve this, the data was arranged in rows and columns and each score for the variable tabulated. Thereafter statistical package for social scientists (SPSS) computer programme was applied to extract the factors. The correlation matrix was analysed to determine if there were any variables that would be measuring the same thing or were highly correlated.

The correlation matrix indicated that most of the variables were not correlated. This is because most of the correlation coefficients were below 0.5. Security of making transactions and confidence in bank workers had a correlation coefficient of 0.519 showing some correlation. Both were retained in the analysis because they were not highly correlated. Ease of getting to other banks and ease of getting information from

other banks showed a correlation of 0.520. However both were retained as it was considered that this coefficient was not high. Costs involved in switching and the transaction costs involved had a correlation coefficient of 0.556. Both these variables were retained because it was also considered that this correlation coefficient was not high. Costs involved in switching and the perceived risk associated with moving had a correlation coefficient of 0.514. They were also retained in the analysis because the correlation was not very high.

The bank is well known and the owners of the bank were correlated by a correlation coefficient of 0.570 while the transaction cost involved and the cost associated with moving had a correlation coefficient of 0.541. Also in each case the variables were retained since correlation coefficients were not very high. Security of making transactions and the quality of service had a correlation coefficient of 0.685 while the quality of service and the transaction cost involved had a correlation coefficient of 0.574 while security of making transaction and the transaction cost involved were correlated by a coefficient of 0.597. However, in each case these variables were retained. There was need in determining whether factor analysis would yield distinct results.

Table 16 shows the results of both Kaiser Meyer Olkin measure of sampling adequacy and Bartlett test of Sphericity. These tests were done so as to determine whether factor analysis will bring out appropriate factors. Kaiser-Meyer-Olkin measure of sampling Adequacy indicates that the patterns of correlations are relatively compact hence factor analysis should yield distinct and reliable factors. This is because it has a value of 0.829 which is higher than the suggested value of 0.6 making factor analysis appropriate. The Bartlett tests the null hypothesis that the correlation matrix is an

identity matrix. The test result shows that there is a relation between the variables included in the analysis. For the data set used in this report, the test it is highly significant (p< 0.0001) hence factor analysis is appropriate for use. Further to this analysis the table of communalities was looked at. Table 17 shows the table of communalities

Table 16: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.829
Bartlett's Test of Sphericity	Approx. Chi-Square	2243.69
	df	378
	Sig.	0.000

a Based on correlations Source: Survey Results (2007)

Principal Component Analysis works on the assumption that all variables have a common variance resulting in an initial communality of one for all variables. The "extracted" communalities are the percent of variance in a given variable explained by the extracted factors, which will usually be fewer than all the possible variables, resulting in coefficients less than one. From Table 17, "Perceived risk associated with moving ", "ease of getting information from other banks" and "well organized modern looking facilities", can be explained up to 59.4%, 63.4% and 58.0% of the total variance by the extracted factors respectively. "I go to the bank because it is well known", was explained by the highest value of variance standing at 71.9% while "product diversity" was explained by the least value of variance standing at 45.4%. More than 60% of the variance explained sixteen variables and two were explained by less that 50% of the variance in the data. The average communality being 0.623, meaning the extracted factors are able to explain on average 62.3% of each item. Based on the above some variables could not be explained effectively by the extracted

factors. However, they were retained in the analysis because they give an indication of operation of a bank.

Table 17: Reliability of the indicator (Communalities)

	Initial	Extraction
The bank pays Negotiated Interest	1.000	0.556
Security of Making transactions	1.000	0.725
Confidence in the bank Management	1.000	0.717
Confidence in the bank workers	1.000	0.643
The bank services are standardized and predictable	1.000	0.617
The bank does not exploit me	1.000	0.510
The bank has well organized modern looking facilities	1.000	0.580
At the bank account information is easily accessed	1.000	0.482
There is a short time for transactions anywhere	1.000	0.543
Product Diversity	1.000	0.454
Satisfied with the bank's operating times and location	1.000	0.562
Satisfied with the bank's services and products	1.000	0.642
Services and services are affordable and profitable	1.000	0.678
I get more that the worthy of my time and effort	1.000	0.576
I value the bank because of interior and exterior designs	1.000	0.587
I like the bank because it provides ATM services	1.000	0.531
I go to this bank because it is well known	1.000	0.719
I prefer the bank because of its owners	1.000	0.690
Perceived risk associated with moving	1.000	0.594
Ease of getting to other Banks	1.000	0.700
Ease of getting information from other banks	1.000	0.634
Cost involved in Switching	1.000	0.711
The transaction cost Involved	1.000	0.671
The cost associated with the products	1.000	0.642
The service time	1.000	0.686
Information on products offered	1.000	0.578
The quality of service	1.000	0.710
Influence from close friends	1.000	0.714

Extraction Method: Principal Component Analysis. Source: Survey Results (2007)

For example, product diversity shows how the bank is able to be innovative and provide products that meet the requirement of the customers. Such a variable need be retained to address this aspect. In addition, account information, if easily accessed then customers could make informed decisions. It signifies customer satisfaction and hence was also retained.

This makes Kaiser Criterion inappropriate to determine the extracted factors. This is because from a data set of 200 questionnaires, communalities averaged 0.623, which is higher than 0.60 expected to use when the questionnaires are above 250. The Kaiser criterion was however still used and a confirmation made from the scree plot. The scree plot criterion requires that data should be above 300 or more. However, this data set was 200. The two criteria were used because neither method could meet the set criterion. Hence, the researcher needed to be certain that the extracted factors are representative. From the dataset, seven factors were extracted based on Kaiser Criterion where the interest is in keeping only those linear principal components whose eigenvalues are greater than 1. Table 18 shows eigenvalues from the output.

Table 18: Total Variance Explained

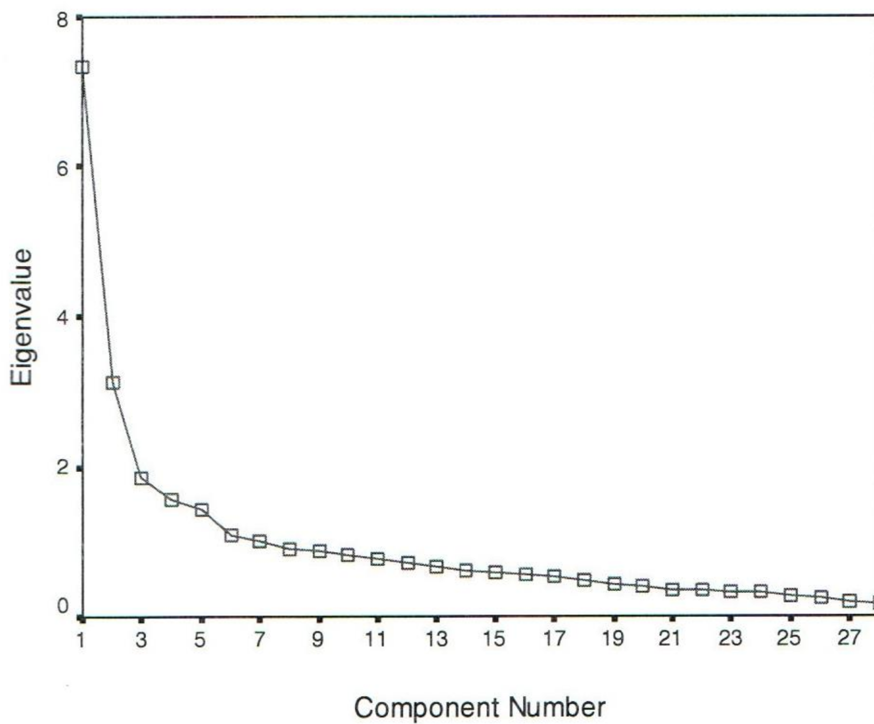
Component	Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7.343	26.226	26.226	3.611	12.898	12.898
2	3.138	11.208	37.434	3.142	11.222	24.120
3	1.846	6.593	44.027	2.574	9.192	33.312
4	1.568	5.599	49.626	2.548	9.099	42.410
5	1.440	5.144	54.769	2.089	7.460	49.871
6	1.097	3.916	58.686	2.072	7.400	57.271
7	1.018	3.637	62.322	1.414	5.051	62.322

Extraction Method: Principal Component Analysis Source: Survey Results (2007)

As indicated earlier, the extracted components were able to explain on average 62.32% of each item. This is confirmed by the results of Kaiser criterion because accumulatively 62.32% has been explained by the extracted components.

The same components can be arrived at by examining the scree plot shown

Figure 7: Scree Plot



Source: Survey Results (2007)

As seen from the scree plot the nearly flat part of the plot is reached after the seventh component. This confirms the results produced by Kaiser Criterion that seven component account for the factors affecting customer loyalty in banks. The seven components then were to be named according to the factors that are included in each component. To determine the actual factors the rotated factor loadings were also

examined. Table 18 shows the rotated component matrix with eigen values below 0.4 suppressed

Table 19: Rotated Component Matrix

	Component						
	1	2	3	4	5	6	7
Satisfied with the bank's services and products	.728						
Services and products are affordable and profitable	.703						
There is a short time for transactions anywhere	.689						
I get more than the worth of my time and effort	.649						
I like the bank because it provides ATM services	.540						
The bank does not exploit me	.527						
Services at the bank are standardized and predictable	.508					.423	
The cost associated with products		.701					
The transaction cost involved		.688					
The quality of service		.649		.456			
Security of making transactions		.555		.409			
Satisfied with banks operating times and Location		.520					
Ease of getting to other banks			.813				
Ease of getting information from other banks			.715				
Perceived risk associated with moving			.698				
Cost involved in switching		.520	.582				
Information on products offered				.691			
The service time		.514		.585			
Well organized modern looking facilities at the bank				.521			
At the bank account information is easily accessed	.410			.506			
Product Diversity				.498			
I go to this bank because it is well known					.777		
I prefer the bank because of its owners					.760		
I value the bank's interior and exterior designs	.414				.441		
Confidence in Management						.743	
Confidence in Bank workers						.645	
The bank pays negotiated interest						.619	
Influence from close friends							.816

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a Rotation converged in 24 iterations.

Source: Survey Results (2007)

Based on the rotated factor loading, “satisfied with the bank’s products and services”, “services and products are affordable and profitable”, “there is short time for transaction anywhere”, “I get more than the value of my time and effort”, “there are ATM services”, “the bank does not exploit me” and “services are standardized and predictable” form one component. This can be identified as the first factor affecting customer loyalty and will be named customer satisfaction. This is because it deals mainly with variables that could be easily associated with satisfaction of the customers. The second component comprises of the “cost associated with products”, “the transaction cost involved”, “the quality of service”, “Security of making transactions” and “Satisfied with banks operating times and Location”. This component mainly involves the value that customers apportion to the financial institution. This was named as the perceived value.

The third component comprises of “Ease of getting to other banks”, “Ease of getting information from other Banks”, “perceived risk associated with moving” and “the cost involved in switching”. This component mainly looks at what the competitor can be able to offer to the clients. This factor was named competition because it shows how other financial institutions are likely to offer the same service that a particular bank is offering. The main issues being the savings and risks that accrue but the same services retained. The fourth component comprises of “Information on products offered”, “The service time”, “Well organized modern looking facilities at the bank”, “At the bank account information is easily accessed” and “Product Diversity”. These variables mainly deal with a particular bank’s performance. They were named as performance.

The fifth component comprises of "I go to this bank because it is well known", "I prefer the bank because of its owners" and "I value the bank's interior and exterior designs". This component mainly deals with the customers rating that they attach to a particular financial institution in comparison to others. They will therefore give it a rating based on the owner, knowledge from others and interior and exterior designs. This factor was named corporate image. The sixth component comprised of "Confidence in Management", "Confidence in Bank workers" and "the bank pays negotiated interest". These variables mainly deal with a component that is related to the trust that the customers attach to the bank. The trust could be in the employees, management and the trust that the bank will not renege on the promise to pay a particular interest. This factors was named trust. The seventh component comprises of "Influence from close friends". This means that advices from close friends will be taken seriously in choosing a financial institution. This factor was named as peer pressure.

This result lead to rejection of the first hypothesis that customer satisfaction, corporate image, perceived value and trust are the only factors that influences customer loyalty. This was consistent with the theory because consumer behavior is dependent on a number of factors that may not only be customer satisfaction, corporate image, trust and perceived value. There could be other factors that need to be analyzed. For instance, customers always compare items before purchase. Competition therefore influences the perception of customers regarding a particular financial institution. In addition to competition, peers will account for a number of people changing there perception of a particular financial institution. This means that factors besides customer satisfaction, perceived value, trust and corporate image there are other factors that play a significant role in constructing customer loyalty. This is

because customer loyalty is a behaviour that is dependent on a number of differing dimensions.

4.2.2 Testing the Second Hypothesis

In order to test the second hypothesis that factors affecting customer loyalty have the same effect on customer loyalty in banks, Kruskal Wallis ANOVA was used where the treatment factor was customer loyalty.

Table 20: Analyse-It Microsoft Excel Output

Analysed with: Analyse-it + General 1.71

Kruskal-Wallis ANOVA

Comparison of the factors affecting customer loyalty: Satisfaction, value, competition, performance, Image, trust, friends Influence

Koech 6 January 2007

n	1400		
Comparison	n	Rank sum	Mean rank
Satisfaction	200	124638.5	623.19
value	200	209591.0	1047.96
competition	200	65216.0	326.08
performance	200	181398.0	906.99
Image	200	143969.5	719.85
Trust	200	151517.0	757.59
Friends Influence	200	104370.0	521.85
Kruskal-Wallis statistic	422.95		
p	<0.0001		

Source: Survey Results (2007)

The data was tested at level of significance 0.05 with 6 degrees of freedom. The computed value (422.95) of H statistic was greater than the tabulated value (12.582)

hence the hypothesis was rejected. This means that, Managers of banks should consider each of the factors independently when attempting to increase customer loyalty in their institutions. This is because the influence of each factor on the customer differs. These results are consistent with theory since it is expected that customer loyalty should vary with the named factors because the retention level of each factor differs. There was need to determine how each of the factors affect customer loyalty. To achieve this, a correlation analysis was done. Table 21 indicates the correlation matrix showing the correlation coefficient between each of the factors and customer loyalty.

Table 21: Pearson Correlation coefficients

	Satisfy	*value*	*compete*	*perform*	*Image*	*trust*	*friends*
Satisfy	1						
value	0.292	1					
compete	0.225	0.525	1				
perform	0.500	0.622	0.360	1			
Image	0.247	0.286	0.250	0.262	1		
trust	0.392	0.441	0.250	0.366	0.323	1	
friends	0.178	0.027	0.043	0.143	0.223	0.010	1
Loyalty	0.583	0.426	0.346	0.473	0.373	0.389	0.213

Source: Survey Results (2007)

Customer satisfaction has the strongest influence on customer loyalty while influence from close friends has the least influence. This is because they have correlation coefficients of 0.583 and 0.213 respectively. Performance and perceived value closely follow customer satisfaction in influencing customer loyalty with coefficients of 0.473 and 0.426 respectively. However these two factors are correlated with a

correlation coefficient of 0.622. This means improving one will most likely improve the other. The two were retained because they don't entirely measure the same thing. The results suggest that trust, customer satisfaction, perceived value, corporate image, competition, performance and close friends influence are separate constructs that combine to determine the customer loyalty, with customer satisfaction exerting a stronger positive influence than the other factors.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary.

This research is a response for the need of customer loyalty research in financial institutions in Kenya. Utilizing the proposed loyalty model as a theoretical framework, the direct influences of customer satisfaction, trust, perceived value, competition, corporate image, performance and close friends on behavioral loyalty was observed. In the study, a data set of 200 completed questionnaires was used to explore the factors that influence customer loyalty in financial institutions.

Factors affecting customer loyalty were extracted from a set of 28 test items borrowed from commitment and gap measurement of service quality. The items were then amended to suit determination of customer loyalty. Marked differences in the way customers view the items were noted. This meant that each of the items influence customer loyalty in varied ways. For instance contrary to expectations of the researcher, the survey results show that customers do not attach a lot of importance to provision of automated teller machines when considering repeat purchase with banks.

Since the items were many, there was need to reduce them to meaningful factors that influence customer loyalty. This was achieved through the use of principal component analysis. Seven distinct factors were extracted from the initial items namely customer satisfaction, trust, competition, corporate image, performance, influence from close friends and perceived value.

Items that are associated with customer satisfaction indicate that clients align satisfaction with the bank's services and products, Services and products are affordable and

profitable, there is a short time for transactions anywhere and the bank does not exploit me. Also items that create an environment where the confidence is instilled in the customer seem to play a significant role in customer loyalty. It was further noted that customer satisfaction has the highest positive coefficient of correlation with customer loyalty. This indicates that its influence on customer loyalty is much higher than the other factors

Items aligned to trust included Confidence in both Management and employees of the bank and the fact that the bank pays negotiated interest. This was contrary to expectations that items like the bank not exploiting customers would show trust. This could be due to the fact that the bank not exploiting is a major variable to be considered by customer. Therefore many consider it as satisfying any time customer satisfaction is measured. Trust had a positive correlation coefficient of 0.389 indicating that its influence towards customer loyalty is not very great.

5.2 Conclusion

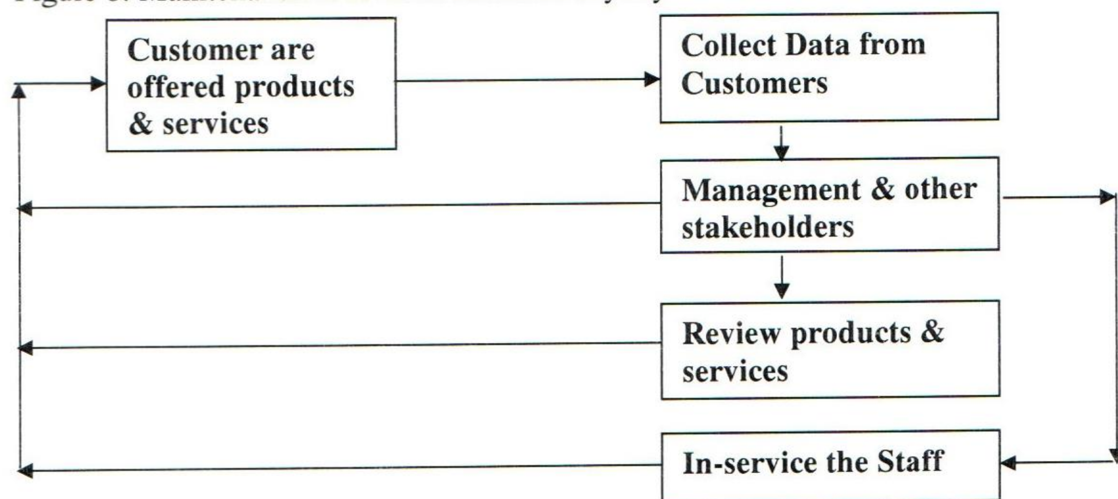
The contributions of this study to customer loyalty research are twofold. First, it has successfully applied the traditional conceptualization of customer loyalty in financial institutions that is different from the marketplace examined in prior studies. Second, customer satisfaction, trust, perceived value, corporate image, performance competition and influence from close friends were found to be important determinants of customer loyalty. This is despite the fact that they have varied contribution towards the level of customer loyalty in financial institutions in Kenya

5.3 Recommendations for adoption and areas for further research.

The findings of this study have implications for bank managers to develop their customer loyalty programmes. Considering the uniqueness of banks in shaping the economy, it is of paramount importance to ensure that customers will have repeat bank transaction behaviors and show loyalty to a specific banks. Errant behaviors can result in less economic growth since more resources may be wasted in movements from one bank to another in terms of switching costs. In addition, customer loyalty enables banks to plan effectively their future operations so as to effectively play their role in the society of ensuring economic growth. In order to achieve this goal, attention must be placed in developing a satisfying, trustworthy, and highly valued bank services. In addition, banks should study their competitive environment with a view of adjusting it upwards, use of network marketing where present customers should influence potential customers or existing customers to maintain loyalty. Further to this, these banks should improve their performance as well as their corporate image since both positively influence customer loyalty.

5.3.1 Maintenance of high level customer loyalty in Financial Institutions

Figure 8: Maintenance of level of customer loyalty



Source: Own (2007)

The researcher had the aim of increasing customer loyalty in financial institutions hence the need to come up with a model that may be used to retain customers. This model is as shown in Figure 8 above.

5.3.1.1 Offering products and services to customers

Customer loyalty is mostly based on how products and services are offered by financial institutions. Due to this, there is need to offer customers with these products and services and then determine their reaction. It is therefore essential to ensure that the channels for offering the services and products are right. For example, Branch network should be expanded and provision of Automated Teller Machine services. Knowledgeable employees should offer the services in a free, friendly and courteous environment. Also the procedures should be standardized in all outlets. For example after sales service should be implemented in all outlets.

Results of the study indicate that customer satisfaction had a high positive influence on customer loyalty. It is therefore apparent that such a factor should be the focus of financial institutions' customer loyalty model. Besides customer satisfaction, other factors influence customer loyalty hence a hybrid model of all the factors should suffice.

5.3.1.2 Collect Data from Customers.

The information is collected through structured questionnaires, interviews on customers by customer relations officers, data collected from suggestion boxes, etc. The collection of information to be done every three months and testing as applied in this research is carried out to identify strongest factors influencing customer loyalty.

This is equivalent to collecting the required information and testing the data as applied in the two hypotheses.

5.3.1.3 Management and other stakeholders

Management uses the results in 5.3.1.2 in making decisions. If it is identified that a factor such as competition has become prominent, the management may vary the pricing of goods and services by reducing it or increasing volume of products for same price. It must be noted that factors affecting customer loyalty keep changing in strength and new ones may arise, hence the need to repeat collection of information and the testing every three months.

5.3 .2 Suggestions for Further Study

This empirical study has a number of limitations that can be addressed in future research. First, the data used in this study limits generalization to other financial institutions. A confirmatory analysis and cross-cultural validation using a large sample gathered from other banks in different environments is required for greater generalization of the factors affecting customer loyalty in financial institutions.

Secondly, the study did not incorporate loyalty outcomes (e.g., market share, relative price, and profit). Prior studies suggested that market share increases as loyalty increases. The influence of loyalty on the market share, product price, and profit of any bank is an important issue in need of systematic empirical research. Studies should be conducted to show the relationships that exist in these outcomes and customer loyalty in financial institutions. This may involve the use of regression analysis to come up with a model that could be used for predicting market share when level of customer loyalty is known.

REFERENCES

Aaker, D. A,(1996) Building strong brands, New York Free Press. New York.

Aaker, D.A., (1991) Managing Brand Equity: Capitalizing on the Value of a Brand Name, New York: The Free Press.

Berry, L. (1980): "Service Marketing is Different," *Business*, Vol. 30 (May-June).

Bitran, G. & Lojo, H. (1993) "A Framework for Analysing Service Operations", *European Management Journal*, 11(3), pp. 271-282.

Buttle, F. (1996), "SERVQUAL: Review, Critique, Research Agenda", *European Journal of Marketing*, 30(1), pp. 8-32.

Cannon, T. (1980): " Marketing Principle and Practice, 5th Edition", Cassel Publisher.

Cerchiaro, I. & Ayrosa, E. A. T. (2003) "Comparing Perceptions of Service Quality in Brazil and the UK"

Cronin, J. & Taylor, S. (1992) "Measuring SQ: a re-examination and extension", *Journal of Marketing*, Vol. 56, July, 55-68.

Cronin, J. & Taylor, S. (1994) "SERVPERF versus SERVQUAL: reconciling performance-based and perceptions-minus-expectations measurement of SQ", *Journal of Marketing*, Vol. 58, January, 125-131.

Gruen T.W., (1995), The Outcome Set of Relationship Marketing in Consumer Marketing, *"International Business Review"*, n.4, 447-469

Howard, J. & J. Sheth, (1969) The Theory of Buyer Behavior, New York: John Eiley & Sons.

Kandie P. (2003) "An investigation of Customers' Perception and Expectation of Quality Service: The case of selected Banks in Kenya". Unpublished MBA Project, UON

Keller, K. L., (1998), Strategic Brand Management, Building, Measuring and Managing Brand Equity, New Jersey. Prentice Hall. India.

Kotler P. (2000): "Marketing Management: The Millennium Edition". Delhi: Prentice Hall. New Delhi

Lewin K. (1936), Principles of Topological Psychology, New York, McGraw Hill.

Mason, R., D. A Lind & W. G. Marchal. (1999) "Statistical Techniques in Business and Economics, 10th Edition". McGraw Hill Companies: New York.

Mclver, C. & Naylor, G. (1986) Making Financial Service 6th Edition. London Institute of Bankers. London

Morgan R.M. & Hunt S.D. (1994) The Commitment-Trust Theory of Relationship Marketing, *"Journal of Marketing"*, July, 20-38

Murigi E. M. (2003) "Customer Satisfaction through end-To-end Service Management Strategy. A study of large Commercial Banks in Kenya". unpublished MBA Project, UON

Murugu A. N. (1998) "The perceived service quality of service in the mortgage sector: The case of HFCK ", unpublished MBA Project, UON

Mwandikwa M. A. (2003) "A survey of the perception of corporate identity feature among retail clients of Commercial Banks in Nairobi." Unpublished MBA Project, UON

Mwaura A. K. (2002): "Percieved Quality Service: The Case of Matatu Service," Unpublished MBA Project, University of Nairobi, Nairobi.

Njoroge J. K. (2003) "Customer PERCEPTION OF service quality in decentralized system in the public utility sector in Kenya, The case of KPLC." unpublished MBA Project, UON

Nyaoga, P. (2003) "Analysis of customer perception of services offered by KPLC in Mount Kenya Region", Unpublished MBA Project, UON

Odhiambo B. E. (2003) "Determinants of Customer Satisfaction: The case of Mobile Phone subscribers in Nairobi". Unpublished MBA Project, UON

Oliver R.L. (1997), Satisfaction. A behavioral Perspective on the Consumer, New York, McGraw Hill

Oliver R.L., (1999), Whence Consumer Loyalty?, *"Journal of Marketing"*, Special Issue, 33-44

Ouma, A. (2003) "CBK renews calls on small banks to merge". East African Newspapers, Nairobi www.yellowpages.kenya.com site visited on 12th September, 2004

Paliwoda, S., (1993) 2nd Edt, International Marketing, Oxford 0X 28D, Butterworth Heinemann Ltd, Britain

Parasuraman, A., Berry, L. and Zeithaml, V. (1988) "SERVQUAL: a multi-item scale for measuring consumer perceptions of SQ", *Journal of Retailing*, Vol. 64, spring, 12-40.

Parasuraman, A., Berry, L. and Zeithaml, V. (1993) "Research note: more on improving SQ measurement", *Journal of Retailing*, Vol. 69, Spring, 140-147.

Reichheld, F.F. and P. Schefter(2000) "E-Loyalty: Your Secret Weapon on the Web," *Harvard Business Review,* Vol. 78, No. 4:105-113.

Robinson, S. (1999) "Measuring SQ: current thinking and future requirements", *Marketing Intelligence & Planning,* 17(1), 21–32.

Rust, R. and Zahorik, A. (1993) "Customer satisfaction, customer retention and market share", *Journal of Retailing*, 69(2), 193-215.

Rust, R.T. and Oliver, R., (1994) *Service Quality*, SEGE Publications: London.

Samuel, K. (1999) "Change for the better via ISO 9000 and TQM", *Management Decision*, 37(4), 381-385.

Schieffman, L. G. and Kanur, L. L., (1997), Consumer Behaviour 19th Ed. Prentice Hall Inc. India.

Zeithaml, V. and Bitner, M. (1996), *Services Management*, McGraw-Hill, New York.

APPENDIX 1: QUESTIONNAIRE

INTRODUCTION

I am a postgraduate student in the faculty of commerce at Egerton University conducting research on customer loyalty towards financial institutions in partial fulfilment of the requirement for Masters Degree in Business Administration. You have been randomly selected to participate in this study and this questionnaire seeks your views and knowledge in relation to this subject matter. I kindly request you to assist since the information and data required is for academic purposes only and will be treated in confidence.

A RATING OF THE BANK'S SERVICES

The following statements relate to your feelings and experience with services and products offered at POSTBANK. Please tick in the appropriate box show the extent to which you agree with the statement.

KEY

Strongly Disagree				Strongly Agree
1	2	3	4	5

	Item	1	2	3	4	5
1.	Employees' behaviour in at the bank instils confidence in me					
2.	My preference for the bank would not willingly change.					
3.	I would not leave this bank even if close friends recommend					
4.	I am likely to recommend the bank to a friend or colleague					
5.	It will be difficulty to change my beliefs about the bank					

B FACTORS AFFECTING RETENTION OF CUSTOMERS AT A BANK

Please tick on the table overleaf appropriately to indicate the extent to which the following factors influence your decision not to change your bank when making banking transactions. The table uses a scale of 1 to 5 where 1 corresponds to Not very

important, 2 means Not Important, 3 means somewhat important, 4 means Important and 5 means Very important

KEY

Not very Important — Very Important

1 2 3 4 5

No	Item	1	2	3	4	5
1.	Perceived risk associated with moving					
2.	Ease of getting to other banks					
3.	Ease of getting information from other banks					
4.	Cost involved in switching					
5.	The transactions costs involved					
6.	The costs associated with products					
7.	Availability of Many Products(Product Diversity)					
8.	The service time					
9.	Information on products offered					
10.	The Quality of Service					
11.	Influence from close friends					
12.	The bank pays negotiated interest					
13.	Security of making transactions at the bank					
14.	Confidence in the bank's management team					
15.	Confidence in the bank's workers					
16.	Services at the bank are standardized and predictable					
17.	The bank does not exploit me					
18.	The bank has well organized modern looking facilities					
19.	At the bank account information is easily accessed					
20.	There is a short time for transactions anywhere					
21.	I am satisfied with the bank's operating times and location					
22.	I am satisfied with the bank's services and products					
23.	The banks products/services are profitable and affordable					
24.	I get more than the worth of my time and effort at the bank.					
25.	I value the bank because of interior and exterior designs					
26.	I like the bank because it provides ATM services					
27.	I go to this bank because it is well known					
28.	I prefer the bank because of its owners					

EGERTON UNIVERSITY LIBRARY