AN INVESTIGATION OF THE FACTORS AFFECTING CUSTOMER LOYALTY IN THE BANKING SECTOR IN KENYA: A SURVEY OF BANK CUSTOMERS IN NAIROBI

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D53/PT/12442/2009

A RESEARCH REPORT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILMENT OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF KENYATTA UNIVERSITY

NOVEMBER, 2012

Kiniu, Bennah
An investigation of the factors
DECLARATION

This research report is my original work and has not been presented for a degree in any other university or for any other award.

Signature ________________________________ Date 23/11/2012

Bennah Wahu Kiniu

I confirm that this research report has been submitted for examination with my approval as the University Supervisor.

Signature ________________________________ Date 26th November, 2012

Mr. Chrispen Maende

I confirm that this research report has been submitted for examination with my approval as the Chairman of Department.

Signature ________________________________ Date

Muathe SMA (PhD)
Chairman-Business Administration Department
Kenyatta University
DEDICATION

I dedicate this research project to my mother Joyce for all her unrelenting support throughout my academic journey; To my mother-in-law Trizah who gave her all to ensure I completed the course; to my siblings Zippy and Gideon for loving me, inspiring and believing in me; to my lovely children Joy and Moses for all their love and patience with me throughout my research; to my amazing spouse Michael who tirelessly encouraged and funded me during this research project.
ACKNOWLEDGEMENT

My gratitude goes to God the most supreme, who makes all things beautiful in their time. Were it not for His divine provision and enablement, this project would not have come to fruition. I acknowledge my supervisor Mr. Chrispen Maende for all his constructive suggestions as well as the ample time allocated aimed at improving earlier drafts of this research report. All the lecturers who took me through this entire course, giving your all to enable me traverse this intellectual journey with ease, my special acknowledgements go out to you. Of great importance are the various respondents for their cooperation during collection of data used in this research project. Your contributions go a long way towards the completion of this project.

I salute my research assistants for their selfless efforts in data collection.
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DEFINITION OF OPERATIONAL TERMS

**Customer:** This is an individual, household or institution that buys goods and services from a producer or seller for personal consumption, for further processing, for resale, for production of public services or for transfer of goods to others who need them. (Kotler P. & Armstrong G. 2008)

**Customer loyalty:** Customer loyalty has been defined as a deeply held commitment to repurchase or re-patronize a preferred product/service consistently in the future thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior (Oliver, 1999).

**Product:** This refers to anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. (Kotler P. & Armstrong G. 2008)

**Service:** This is any activity, benefit, or satisfaction offered by one party to another for sale that are essentially intangible and do not result in the ownership of anything. (Kotler P. & Armstrong G. 2008)

**Brand:** This is a name, term, sign, symbol, design or a combination of these that identifies the maker or seller of a product or service (Kotler P. & Armstrong G. 2008)

**Customer relationship management:** This is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. (Kotler P. & Armstrong G. 2008)
**Customer perceived value:** This is the customer’s evaluation of the difference between the benefits and all the costs of a market offering relative to those of competing offers. (Kotler P. & Armstrong G. 2008)

**Customer satisfaction:** This is the extent to which a product’s perceived performance matches a customer’s expectation. (Kotler P. & Armstrong G. 2008)

**Need:** This is a state of felt deprivation which may be physical, social or individual. Basic physical needs comprise of food clothing and shelter while basic social needs include the need to belong and receive affection. Individual physical needs comprise the need for knowledge and self expression. (Kotler P. & Armstrong G. 2008)

**Want:** This is a form of human need takes as it is shaped by society, culture and individual personality. (Kotler P. & Armstrong G. 2008)

**Exchange:** This has been defined as the act of obtaining a desired object from someone by offering something in return. (Kotler P. & Armstrong G. 2008)

**Market:** A set of all actual buyers of a product or service who share a particular need or want that can be satisfied through exchange relationships.

**Market segmentation:** This has been defined as the process of dividing a market into groups of similar customers and selecting the most appropriate group(s) for the firm to serve. (Peter J.P. & Donnelly Jr. J.H. 2007)
Marketing: The process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return. (Kotler P. & Armstrong G. 2008)

It as also been defined as an organizational function and a set of processes for creating, communicating, and delivering value to customers for managing customer relationships in ways that benefit the organization and its stakeholders. (AMA)

Marketing strategy: It is a marketing logic by which a business unit hopes to use to create customer value and to achieve profitable relationships thereby attaining their marketing objectives. (Kotler P. & Armstrong G. 2008)

Trust: Trust has been defined as the confidence in an exchange partner’s a reliability and integrity (Morgan & Hunt, 2004).
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<thead>
<tr>
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<th>Definition</th>
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<tbody>
<tr>
<td>CBK</td>
<td>Central bank of Kenya</td>
</tr>
<tr>
<td>KCB</td>
<td>Kenya Commercial Bank</td>
</tr>
<tr>
<td>COOP</td>
<td>Cooperative</td>
</tr>
<tr>
<td>KNBS</td>
<td>Kenya National Bureau of Statistics</td>
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<tr>
<td>PWC</td>
<td>Pricewaterhouse Coopers</td>
</tr>
<tr>
<td>GOVT</td>
<td>Government</td>
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<tr>
<td>MSI</td>
<td>Market Share Index</td>
</tr>
<tr>
<td>AMA</td>
<td>American Marketing Association</td>
</tr>
<tr>
<td>WOM</td>
<td>Word of mouth</td>
</tr>
<tr>
<td>MFI</td>
<td>Micro finance Institution.</td>
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<tr>
<td>NBFI</td>
<td>Non Banking Financial institution</td>
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<tr>
<td>DTM</td>
<td>Deposit taking micro finance</td>
</tr>
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<td>AML</td>
<td>Anti money laundering</td>
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ABSTRACT

There has been a myriad of changes in the banking industry over the past years most of which have resulted in more innovative products and stiffer competition among the various players in the industry. There is need for the banks to grow their business, increase profits and literally survive. The banks can only attain these goals by use of various techniques aimed at attracting new customers and retaining the customers that they serve. This study aimed at identifying the various factors that influence banking customer's loyalty with the hope of suggesting ways in which these factors could be used to the banks' advantage. Specifically, the study aimed at investigating the effects of quality of services and products, the perceived value of services and the customers trust on the customers' loyalty. The data collection tools that were used in this study were questionnaires which were administered by way of personal interviews. The research targeted the banked Kenyans particularly those who live in the city of Nairobi. The sample to be taken comprised of 360 banked people from Nairobi selected using stratified random sampling. The study found that although majority of the customers had accounts in more than one bank, they were particularly using one of the preferred banks for their major banking. The study further found out that most customers have been loyal to their current bank for between two to five years and were transacting on a weekly basis. The majority of customers were unlikely to transfer major banking activity to any other bank accounts. The study also revealed that customer loyalty is greatly affected by service quality, perceived value of service as well as customer trust. Moreover, the study realised that customers would prefer better services at a more reasonable price. The study therefore recommends that Kenyan banks should strive to improve quality of service in order to increase their market share. Trust should be cultivated through integrity and confidentiality of financial and personal information of clients.
CHAPTER 1
INTRODUCTION

1.1 Background to the study
This chapter looks at the background of the banking industry, the problem statement, the research objectives, and the research questions the research hypothesis, the importance and the limitations of this study.

Loyalty to a bank can be thought of as continuing patronage over time. The degree of loyalty can be measured by tracking customer accounts, over defined time periods and noting the degree of continuity in patronage (Yi & Jeon, 2003 cited in Afsar et al 2010 p. 1040). In the new market place, the occurrence of committed and often inherited relationships between a customer and his or her bank is becoming increasingly scarce. Several strategies have been attempted to retain customers. In order to increase customer loyalty, many banks have introduced innovative products and services (Alam & Khokhar, 2006 cited in Afsar et al 2010 p. 1041). Marketing success requires understanding and frequently monitoring the product and service attributes which increase loyalty and share of wallet. The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and other various prudential guidelines issued by the Central Bank of Kenya (CBK). All of the policies and regulations that administer the entire banking industry revolve around lifting the controls towards the management and equitable services. With the help of the monetary policy theirs is a formulation of policies that fosters the liquidity, solvency and proper functioning of the financial system. Along with the various developmental changes in the environment, Kenya’s banking industry recognized the growth in assets, deposits, profitability, and adoption of banking services and products (PwC 2010).
Owing to the growth in the financial streams and increased innovative programs, by banks, Micro finance Institutions (MFIs) as well as deposit taking microfinance institutions (DTMs), the competition in the banking industry tightened. The banking industry currently has over fifty licensed players namely: Kenya commercial bank, Standard chartered bank, Barclays Bank of Kenya, National bank of Kenya, Equity bank, Family bank, Consolidated bank, Fina Bank, NIC bank, Commercial Bank of Africa, Eco bank, co-operative bank, credit bank, oriental commercial bank, Bank of Baroda, Bank of India, guardian bank, African Development Bank, Diamond Trust Bank, Industrial Development Bank, Habib Bank, Post Bank, K-Rep bank, Panafrican Bank, CFC Stanbic Bank, Victoria Commercial Bank, East African Development Bank, Prudential bank, City Finance bank, Citi Bank, Trust Bank, Trade Bank, Middle East Bank, Development bank among others.

The major products include; credit facilities such as personal loans, business loans and currently mortgage facilities have a large market; accounts for deposit and withdrawal of money, money transfer facilities with recent innovations towards mobile banking—pesa pap and m-kodi from Family Bank, m-kesho from Equity Bank, SIMple banking from National Bank of Kenya, Mobi-Banking from KCB among others being the brand names of the m-banking; international banking includes forex trading, letters of credit, international money transfers; recently investment portfolio management has been a famous product as well as insurance products such as banc assurance from Family bank. Agency banking too has entered the market with 8 banks rolling out such brands as Coop kwa Jirani from Cooperative bank, KCB Mtaani from Kenya Commercial Bank and Equity Agent from Equity Bank. (CBK 2011). The trends currently are
towards mobile banking, internet banking for example EAZZY 24/7 from Equity Bank, insurance products, investment management, agency banking and mortgage facilities.

1.2 Statement of the problem
There have been drastic changes in the banking industry in the recent years in Kenya resulting in growth and enhanced profitability among the key players in the industry. This has resulted from immense competition among the players in the industry. (PWC) With the licensing of DTMs it has not been any easier for the banks as they have had to compete for deposits with them as opposed to the days when MFIs were only lending money without accepting deposits from their customers. Banks are literally fighting for business growth, profitability and survival. This could be achieved through retaining existing clients as well as attracting new ones. According to research, an improvement of 5 percent in customer retention leads to an increase of 25 percent to 85 percent in profits depending of the industry in question (Kerin, Hartley, & Rudelius, 2009; Reichheld & Sasser, 1990). Acquiring a new customer is more expensive than retaining an existing one. Firms spend more than five times as much to obtain a new customer than to retaining an existing one (Kotler & Keller, 2006; Wills, 2009). It is therefore important for any banks that would like to succeed to concentrate on retaining existing customers more than looking for new customers.

Although similar studies have been carried out in other parts of the world like in Iran, Sweden, Latvia, Bangladesh and Pakistan, not much research has been undertaken in the area of customer loyalty in the banking sector in the Kenyan context. Afsar et al (2010) investigated on the determinants of customer loyalty in the banking sector in Pakistan, a developing country. They summarised their findings with a call for further research in the same area in other developing
countries. Kenya is one such country hence a research gap. This study sought to investigate what factors affect customer loyalty in Kenya and how each of these factors influences the customer’s loyalty in an effort to understand their importance and suggest ways of enhancing each of the factors to the advantage of the bank.

1.3 Objectives of the study

1.3.1 General objective
- To investigate the factors that affect customer loyalty in the banking industry in Nairobi Kenya.

1.3.2 Specific objectives
- To determine if the quality of service affects customer loyalty in the banking industry in Nairobi Kenya.
- To establish if the value of the service affects customer loyalty in the banking industry in Nairobi Kenya
- To examine the effect of trust on customer loyalty in the banking industry in Nairobi Kenya

1.4 Research questions

a) Does the quality of customer service, affect a Kenyan bank’s customer loyalty?

b) How does the value of service affect the loyalty of a Kenyan bank’s customer?

c) To what extent does trust of a Kenyan bank’s customer affect his loyalty to the bank?
1.5 Significance of the study
The findings of this study will be of great importance to the marketing managers of the various
banks, to use in formulating marketing strategies that will result in a solution for the problem of
customer loyalty. The results of the study will be of useful to the human resource managers
while formulating and implementing of policies on recruitment, as well as training. The study
results will serve as a useful guide to the top executives of banks in coming up with long term
plans such as budgetary allocations for continued research.

1.6 Assumptions of the study
For the purposes of carrying out this study, it was assumed that there existed a significant
relationship between customer service, value of the service, trust and customer loyalty among
bank customers in Nairobi, Kenya.

1.7 Scope of the study
This study intended to investigate customer loyalty among the bank customers in Nairobi
approximated at 4,000,000. This was achieved by way of interviewing 360 out of the 11,378,000
existing bank customers in the top 6 banks by market share index (MSI). These banks are: Kenya
commercial Bank, Equity Bank, Barclays Bank, Co operative Bank of Kenya, Standard
Chartered bank and CFC Stanbic Bank in branches located at the respective headquarters in
Nairobi Kenya.

1.8 Limitations of the study
The limiting factors towards this study included the constraints of time in which the research was
carried out; minimal financial resources for use in the research as well as unwillingness on the
part of some respondents to give the necessary information. To tackle the issue of time, the
researcher employed the use of research assistants who aided in collection of data thus reducing
the time taken. By way of using the researcher's own equipment such as computer, printer, modem, scanner, binder among others, the cost of carrying out the study was minimised. All the typesetting was also done by the researcher to cut down costs. The inclusion of a consent statement in the questionnaire together with use of professional language while approaching the respondents helped in making them feel at ease when giving the information requested by the researcher.
CHAPTER 2

LITERATURE REVIEW

2.1 Introduction
This chapter will cover theoretical review, empirical review, and the conceptual framework.

2.2 Theoretical review
Yang Z. And Peterson R. (2004) looked at customer perceived value, satisfaction, and loyalty with switching costs as a moderating variable. In their findings they elicited the key drivers of customer loyalty as customer satisfaction and customer perceived value. They used five dimensions they identified in their study. These were: to provide quality customer services, specifically through having knowledgeable bank staff who can effectively answer questions by customers. The bank staff should also understand customer specific needs, be in a position to handle any problems that may arise, as well as address customer complaints in a manner that is friendly. Performing the service accurately the first time by executing transactions correctly, maintaining records without error and delivering prompt services is of equal importance.

According to Abdollahi G. (2008) in his research Thesis “Creating a model for banking industry of Iran” the key determinants of customer loyalty in the Iranian Banking industry are: perceived quality, customer satisfaction, switching cost, habit and choosing. In his research he was able to establish that a positive relationship existed between the factors of, perceived quality, customer satisfaction, switching costs, habit, choosing and loyalty.

Titko J. and Lace N. (2010) reviewed customer satisfaction and loyalty in Latvian retail banking with the aim of bringing out the criteria used by customers in evaluating their banks. They found out that the key factors that affect customers’ decision about suspending relationships with their banks
are increased service fee, bad service and operational errors of employees. They also came up with a table outlining the customer perceived value of a bank in order of importance.

Table 2.1 Factors determining customer perceived value of a bank

<table>
<thead>
<tr>
<th>level of importance</th>
<th>Service quality factor</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Quality of bank products</td>
</tr>
<tr>
<td>2</td>
<td>Bank safety, guarantees</td>
</tr>
<tr>
<td>3</td>
<td>Emotional aspect of service (kindliness and courtesy of bank staff)</td>
</tr>
<tr>
<td>4</td>
<td>Service costs</td>
</tr>
<tr>
<td>5</td>
<td>Qualification of bank employees</td>
</tr>
<tr>
<td>6</td>
<td>Level of ATM’s network development; Use of innovations; Usability of bank products</td>
</tr>
<tr>
<td>7</td>
<td>Service speed</td>
</tr>
<tr>
<td>8</td>
<td>The level of branch network development</td>
</tr>
<tr>
<td>9</td>
<td>Spent waiting time in queue</td>
</tr>
<tr>
<td>10</td>
<td>Bank opening hours; Request fulfilment time; Bank reputation</td>
</tr>
<tr>
<td>11</td>
<td>Simplicity of information acquisition</td>
</tr>
<tr>
<td>12</td>
<td>Variety of bank offered products and services</td>
</tr>
<tr>
<td>13</td>
<td>Branch environment (technical facilities, interior decoration etc.)</td>
</tr>
<tr>
<td>14</td>
<td>Professional appearance of front office employees</td>
</tr>
<tr>
<td>15</td>
<td>Bank participation in social projects</td>
</tr>
</tbody>
</table>

Source: Titko J. and Lace N. (2010)

Afsar B., Rehman Z., Qureshi J. and Shahjehan A (2010) in their research on the determinants of customer loyalty in the banking sector in Pakistan; they were able to draw out positive relationships between perceived quality, customer satisfaction, switching cost, trust, commitment
and loyalty by a bank customer. They ranked the factors in order of most important starting with customer satisfaction, commitment, perceived quality, switching cost and trust. They were also able to draw out a positive and significant relationship between satisfaction and trust on commitment.

Gan C., Cohen D., Clemes M. and Chong E (2006) in their research on customer retention in the Newzealand Banking Industry; they established a positive relationship between the factors of customer satisfaction, customer value, perceived competitive advantage, corporate image, switching barriers and customer loyalty that also translates to customer retention.

Monsef S., Mirabi V. And Vazifehdust H. (2012) In their research designing a model for Explaining Customer loyalty towards Banking Services in Iran; they drew out the conclusion that a positive relationship exists between service quality and customer satisfaction. They also found a positive relationship between service quality and attitudinal loyalty; moreover a positive relationship existed between service quality and behavioural loyalty. Further, there was a significant relationship between quality service through customer satisfaction with both behavioural and attitudinal loyalty. There also is a significant relationship between environmental quality and customer satisfaction. In addition there exists a positive relationship between environmental quality and both behavioural and attitudinal loyalty.

Siddiqi K., (2011) conducted a survey on the drivers of customer loyalty to retail banks in Bangladesh. He was able to establish three key determinants of customer loyalty namely: service quality, corporate image and customer perceived value. The three were He modelled these in a conceptual model as shown below.
Fig 2.1: Drivers of customer loyalty in Retail Banking

Source: Siddiqi K. (2011)
Lu et al (2009) developed the following research model for customer loyalty as cited in Mirabi et al (2012)

![Research Model Diagram]

**Fig 2.2: Factors determining loyalty in the banking sector**

Source: Lu et al 2009 as cited in Mirabi et al 2012
2.3 Customer loyalty

Customer loyalty is used to describe the behaviour of repeat customers, who offer favourable word-of-mouth (WOM) messages regarding a certain brand to their friends who may not necessarily switch to the particular brand but over time, the advocacy for the brand from their friends may lead them to try the brand themselves. It might also be viewed as patronage. Customer loyalty is critical in the success of any organization. Once an organization builds up a base of loyal customers, the result is increased revenues, decreased costs as well as growth in profitability. An effective customer loyalty strategy results in retention of customers. According to research, an improvement of 5 percent in customer retention leads to an increase of 25 percent to 85 percent in profits depending of the industry in question (Kerin, Hartley, & Rudelius, 2009; Reichheld & Sasser, 1990). Acquiring a new customer is more expensive than retaining an existing one. Firms spend more than five times as much to obtain a new customer than to retaining an existing one (Kotler & Keller, 2006; Wills, 2009). It is therefore important for any businesses that would like to succeed to concentrate on retaining existing customers more than looking for new customers. This calls for businesses to come up with innovative ways to retain their existing customer and make him buy more from the business, and even bring another person on board. In essence customer loyalty is all about attracting the right kind of customers encourage them to buy more quantities more frequently and even bring their friends along. Customers feel safe when buying from businesses they know and trust.

Srinivasan (2007) has sub divided loyal customers into two main categories. The first category is of loyal customers. Within the loyal category there are satisfied and unsatisfied customers. Satisfaction is not an essential requirement for loyalty; therefore satisfied customers are not
necessarily loyal. However, there is a correlation between the satisfied customers and loyal customers. Sometimes unsatisfied customers are also loyal due to attachment and commitment with the supplier. This type of loyalty is sometimes called **False Loyalty** in which unsatisfied customers remain loyal to their suppliers. The reason for this false loyalty is the factors that pose hurdles and obstacles in the customer’s way, which stops him/her from switching or choosing another supplier. These hurdles are called switching costs. In today’s technologically advanced world and with the availability of internet, it’s much more difficult to retain a customer. This is particularly true for customers in the banking industry in Kenya.

Satisfied customers, if they lack the trust, commitment and attachment with the suppliers, products and services will always defect once they find a competitor with better quality of products and services. Philip Kotler, again, defines four patterns of behaviour: **hard-core loyals** who buy the brand all the time. **Split loyals** who are loyal to two or three brands; **Shifting loyals** keep moving from one brand to another; **Switchers** with no loyalty (possibly 'deal-prone', constantly looking for bargains or 'vanity prone', looking for something different).

### 2.4 Factors affecting customer loyalty

From previous studies carried out in the area of customer loyalty and also on banking industry loyalty as evidenced by literature reviewed above, factors affecting customer loyalty have been identified as follows: Service quality, Perceived value, Trust, Commitment to the relationship, Customer satisfaction, Switching cost, Respected brand/reputation/corporate image, Location of the bank, Fees and interest rates, Shared Values, Special offer or promotion, Variety of services.
2.4.1 Service quality

The quality of service according to Parasuraman, Zeithaml and Berry (1988) as cited by Afsar et al (2010) could be measured using five dimensions of service quality namely: Tangibles—referring to such considerations such as physical facilities, the equipment and appearance of staff; Empathy—caring individualized attention; Assurance is the knowledge, courtesy of staff and their ability to instill trust and confidence in customers; Reliability—refers to the ability of bank staff to perform the promised service accurately and dependably; Responsiveness is the willingness of bank staff to help the bank staff and provide services promptly. Other models exist beside that of service quality developed by Parasuraman et al. For instance Sureshchandar, Rajendran & Anantharaman (2003) developed another model with five dimensions of service quality namely: Core service or product quality, the human element of service delivery, the systemization of the service or the inhuman aspect of the service, the tangibles of the service and social responsibility. For the purposes of this study however, we shall adopt the SERVQUAL model by Parasuraman et al. (2003)

2.4.2 Perceived value

The key to Successful business is designing and delivering superior value compared to competitors. Value is the core of business in today’s world as customers will not pay more than a goods or service is worth (Johnson and Weinstein, 2004). Customers are increasingly searching for and demanding value in products and services. Perceived costs include both monetary payments and nonmonetary sacrifices such as time taken, energy used, and stress experienced by consumers during the acquisition and usage of a product or service. In turn, customer- perceived
value results from an evaluation of the relative rewards and sacrifices associated with the offering. Customers would most certainly feel equitably treated if they perceive that the ratio of their outcome to inputs is comparable to the ratio of outcome to inputs experienced by the company (Oliver & DeSarbo, 1988 as cited in Yang and Peterson 2004). According to Bhattacharya and Singh (2008) managing an organization from the perspective of customer value would increase the likelihood of success. Companies that provide superior value to their customers obtain a competitive advantage (Raich, 2008). Customer value is a more viable element than customer satisfaction because it includes not only the usual benefits that most banks focus on but also a consideration of the price that the customer pays. (Cohen et al. (2007) Customer perceived value has been defined as “the consumer’s overall assessment of the utility of a product based on perceptions of what is received and what is given”. (Zeithaml, 1988). Roig et al. (2006) highlighted that the benefits component would include the perceived quality of the service and a series of psychological benefits. Perceived costs or the sacrifice component includes what the customer must give up or contribute. These include monetary payments and non-monetary sacrifices such as time consumption, energy consumption, and stress experienced by consumers. Perceived value from the customer’s perspective is derived from an evaluation of the relative rewards and sacrifices associated with the offering. (Yang & Peterson) Value has been defined by Zeithaml (1988) based on her exploratory study; she found the patterns of consumers’ responses could be grouped into four definitions: (a) value is low price, (b) value is whatever I want in a product, (c) value is the quality I get for the price I pay, (d) value is what I get for the price that I give. Zeithaml (1988) summarized the four expressions into a general definition: “Perceived value is the customer’s overall assessment of the utility of a product based on perceptions of what is received and what is given”...
2.4.3 Trust

Trust has also been defined as the confidence in an exchange partner’s reliability and integrity (Morgan and Hunt, 2004 cited in Afsar et al 2010). Chaudhuri and Holbrook (2002) define brand trust as the customer’s willingness to rely on the ability of the brand to perform its stated function. Trust causes dedication because it reduces the costs of negotiating agreements (Berry, 2007) and lessens customers’ fear of opportunistic behaviour by the service provider (Bendapudi and Berry, 1997 cited in Afsar et al 2010). In social psychology trust is considered to consist of two elements: trust in the partner’s honesty, and trust in the partner’s benevolence (‘Wetzels et al., 1998). Honesty is the belief that a partner will stand by his word, while benevolence is the belief that the partner is interested in the customer’s welfare, and will not take actions with negative impact on the customer. In the marketing literature, Morgan and Hunt (1994) also suggest that brand trust leads to brand loyalty and commitment because trust creates exchange relationships that are highly valued.
CONCEPTUAL FRAMEWORK

SERVICE QUALITY
- Staff product knowledge and courtesy
- Individualised attention
- Staff ability to instil confidence and trust
- Physical environment, equipment and appearance of staff.
- Staff willingness to help and speed.

PERCEIVED VALUE OF THE SERVICE
- Pricing
- Benefits
- Innovative products

TRUST
- Reliability
- Honesty
- Accuracy
- Confidentiality

CUSTOMER LOYALTY
- Frequency of purchase
- Variety of purchase
- Length of relationship
- Advocacy
- Switching tendency

GOVERNMENT THROUGH CBK MONETARY AND FISCAL POLICIES

Independent Variables

Fig 2.3: factors affecting customer loyalty

Source: Researcher 2012
CHAPTER 3
METHODOLOGY

3.1 Introduction
The method that was used in carrying out the research is descriptive design. The research tool used was questionnaires which were administered by way of personal interviews. Both primary and secondary data was used in the research. Primary data was sourced using questionnaires while secondary data sources included journals, books and the internet. Kenya has 38,610,097 8.12 of whom reside in Nairobi. According to CBK 14,250,503 Kenyans operate accounts with 11,378,000 holding accounts in the top 6 banks by market share index (MSI). According to the 2009 Census by the Kenya national bureau of statistics (KNBS), Nairobi has a population of approximately 3,138,369 residents. The sample frame comprised of a list of all the banked city dwellers of Nairobi. 360 respondents from the top 6 banks by market share index (Bank supervisory report CBK 2011) were interviewed and they were sampled randomly. The research findings were then coded and analysed using SPSS software after which the final report was prepared.

3.2 Research design
According to Kombo D.K. and Tromp D. L. A. (2009) a research design is the structure of research. It can be viewed as the glue that holds together all the elements in a research project. The research design that was used in this study is descriptive because it states facts of the situation as it is. Descriptive design was appropriate for this study since it describes the how the where, the when and the why. This design makes use of questionnaires and in this study we designed and administered a questionnaire to the respondents.
3.3 Target population
Mugenda & Mugenda (2003) define a study population as consisting of the total collections of elements about which the study wants to make some inferences. According to Kombo & tromp 2006, a population is a group of individuals, objectives or items from which a sample is taken. It also refers to an entire group of persons, or elements with at least one thing in common; in this case the target population will be the Nairobi residents who operate bank accounts. Nairobi has been chosen because it has the bulk of branches as compared to all the other regions. According to the C.B.K. (2012), as at 31st December 2011, out of the 1,161 branches countrywide, 465 of those branches are in Nairobi.

The population of Kenya in the 2009 census according to the Kenya National Bureau of Statistics totalled to 38,610,097 8.12 percent of who live in Nairobi. Nairobi therefore has 3,138,369 residents some of whom are bank customers. As at 31st December 2011, there were 14,250,503 bank account holders in the country 11.378 million account holders in the top 6 banks by market share Index. (CBK 2011) These were the target population of the study.

3.4 Sampling design and procedure
Sampling is the procedure a researcher uses to gather people, places or things to study. (Kombo D.K. & Tromp D. L. A., 2009) It can also be seen as a process of selecting a number of individuals or objects from a population such that the selected groups contain elements that are similar with those in the target population. (Orodho & Kombo, 2002). The respondents in this study were selected using stratified random sampling technique. 360 respondents were picked at random from customers of the leading 6 banks on the basis of market share index. These according to the Central Bank of Kenya annual supervisory report 2011 are: Kenya commercial Bank, Equity Bank, Barclays Bank, Cooperative Bank of Kenya, Standard Chartered bank and
CFC Stanbic Bank. Respondents were selected randomly from bank customers at branches located at the headquarters of the respective bank. The suggested sample size for the study was 360 respondents. The sample size taken in each of the 6 banks was proportional to the market share in terms of number of customer deposit accounts as tabulated in the CBK bank supervisory report 2011. The sample size of 360 was arrived at since it exceeds the smallest acceptable number of 30 in social research according to Kreft and De Leeuw (1998). The sampling frame was the list of all banking customers operating accounts in the 6 banks listed above.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Sample Size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya Commercial Bank</td>
<td>52</td>
<td>14.4%</td>
</tr>
<tr>
<td>Equity Bank</td>
<td>209</td>
<td>58.1%</td>
</tr>
<tr>
<td>Barclays Bank of Kenya</td>
<td>32</td>
<td>8.9%</td>
</tr>
<tr>
<td>Co-operative Bank of Kenya</td>
<td>59</td>
<td>16.4%</td>
</tr>
<tr>
<td>Standard Chartered Bank</td>
<td>5</td>
<td>1.4%</td>
</tr>
<tr>
<td>C.F.C. Stanbic Bank</td>
<td>3</td>
<td>0.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>360</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Table 3.1 Sampling design
Source: Researcher 2012

3.5 Data collection
According to Kombo D.K. and Tromp D. L. A., (2009), data collection refers to gathering information to serve or prove some facts. In this study vital information was gathered regarding customer loyalty in the banking industry.
3.5.1 Data collection instruments

The research tools used were questionnaires which were administered by way of personal interviews. To achieve a high rate of response, a cover letter explaining precisely why the respondent should complete the questionnaire was provided.

The questions in the questionnaire attempted to find out the factors responsible for customer loyalty. To measure these opinions, respondents were requested to select the most suitable response on a 5 point Likert-type scale ranging from “Strongly agree, agree, neither agree nor disagree, disagree and strongly disagree”

Besides the questionnaire had some personal questions to capture certain demographics of the respondents such as age, gender, economic status, profession among others.

3.5.2 Data collection procedures

The primary data was collected by use of questionnaires from respondents while secondary data was sourced from books, journals and the internet. Primary data was collected using questionnaires because questionnaires are a cheaper way of collecting data, confidentiality can be upheld and interviewer bias minimised. (Kombo D.K. & Tromp D. L. A. 2009) Before administration of the questionnaire, permission was sought from the bank management to allow the researcher to gather data from customers in the banking halls of the selected 6 banks.

3.5.3 Piloting

Questionnaires were the most appropriate instrument for collecting primary data because they allow anonymity of respondents and bias is minimized as all the questions are framed similarly. Kombo D.K. and Tromp D. L. A., (2009) suggest that the effectiveness of questionnaires should
be tested by piloting the questionnaire with a small sample that is representative of the target population. This enables the researcher to find out if the wording of the questions is clear, and if the questions measure what they are supposed to measure, if all respondents interpret the questions similarly, what response is triggered by the questions and if there is any research bias.

In this study, a pilot study was carried out by giving out 36 questionnaires to customers from the top 6 banks.

3.6 Data analysis
This refers to examining what has been collected in a survey or experiment and making deductions or inferences. (Kombo D.K. & Tromp D. L. A. 2009). The research findings were coded and analysed using SPSS software after which the final report was prepared. Descriptive statistics were used in analysis of data. Both measures of central tendency such as mean, mode and median as well as measures of dispersion such as standard deviation and variance were used in data analysis. In addition to numerical summaries of the data, visual displays of data such as Pareto diagrams, pie charts and bar charts were used in presentation of the data.

3.7 Operationalization of data
The data will be operationalised using various indicators for each variable. Customer loyalty was measured using frequency of transactions, length of banking relationship, advocacy, switching tendencies as well as variety of purchase as indicators. Quality of service had been quantified using indicators such as staff product knowledge and courtesy; individualised attention; staff ability to instil confidence and trust; physical environment, equipment and appearance of staff; staff willingness to help and speed. Value of the service had such indicators as pricing, added benefits, and innovative products while the indicators for trust are; reliability, honesty, accuracy and confidentiality.
<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Indicators</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>loyalty</td>
<td>Frequency of transactions</td>
<td>Daily, weekly, monthly, rarely</td>
</tr>
<tr>
<td></td>
<td>Length of relationship</td>
<td>Below 1 year, 1-5 years, 5-10 years, above 10 years.</td>
</tr>
<tr>
<td></td>
<td>Advocacy</td>
<td>Surely, maybe, maybe not, never</td>
</tr>
<tr>
<td></td>
<td>Switching tendency</td>
<td>Definitely, highly likely, likely, less likely,</td>
</tr>
<tr>
<td></td>
<td>variety of purchase</td>
<td>High, moderate, a few varieties, only one variety</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Staff product knowledge and courtesy</th>
<th>Excellent, very good, good, fair, poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of service</td>
<td>Staff ability to instil confidence and trust</td>
<td>Excellent, very good, good, fair, poor</td>
</tr>
<tr>
<td>Physical environment, equipment and appearance of staff.</td>
<td>Excellent, very good, good, fair, poor</td>
<td></td>
</tr>
<tr>
<td>Individualized attention</td>
<td>Staff willingness to help and speed</td>
<td>Excellent, very good, good, fair, poor</td>
</tr>
<tr>
<td>Value of the service</td>
<td>Pricing</td>
<td>Excellent, very good, good, fair, poor</td>
</tr>
<tr>
<td>Benefits</td>
<td>Innovative products</td>
<td>Excellent, very good, good, fair, poor</td>
</tr>
<tr>
<td>Trust</td>
<td>Reliability</td>
<td>Excellent, very good, good, fair, poor</td>
</tr>
<tr>
<td></td>
<td>Honesty</td>
<td>Excellent, very good, good, fair, poor</td>
</tr>
<tr>
<td></td>
<td>Confidentiality</td>
<td>Excellent, very good, good, fair, poor</td>
</tr>
<tr>
<td></td>
<td>Accuracy</td>
<td>Excellent, very good, good, fair, poor</td>
</tr>
</tbody>
</table>

Table T. 3 Operationalization table

Source: Researcher (2012)
3.8 Ethical expectation

The researcher was expected to use instruments that would minimize bias during data collection. To minimize data, a structured questionnaire was used which was uniform for all the respondents. The questionnaire was also administered one on one for any clarifications that may have been required. Permission was sought from the bank’s management to collect data from customers in the banking halls. Further it was required that the researcher obtains informed consent from the respondents interviewed in the study. A written consent statement was to be attached to the questionnaire explaining fully the purpose of the research, any risks associated with taking part in the survey and allow the participant to withdraw from the study if they felt uncomfortable at any point. The respondent’s participation was supposed to be absolutely voluntary. It was further required that the confidentiality of the respondents would be respected during and after the data collection. To ensure confidentiality of respondents’ information, the data was to be coded and the results were to be used only in aggregate. The respondents’ opinions individually would not be reported to any bank as they were to be used in aggregate for academic purposes only.
CHAPTER 4
DATA ANALYSIS AND INTERPRETATION OF THE FINDINGS

4.1 Introduction

This chapter presents the data analysis and interpretation and discusses the findings of the study in line with the specific objectives of the study.

4.1.1 Overview of analyzed data

The data was collected using questionnaire method comprising of closed ended and open ended questions. The questionnaires were self administered to the respondent during the normal banking hours of the week. Out of the 360 questionnaires given out 252 were returned. This represents a response rate of 70% which is significant to give reliable findings for this study. According to McBurney (2001), a low response rate could have a potentially biasing effect on the study results. However, above 70% response rate is acceptable for the study. The table 4.1 below shows the response rate:

<table>
<thead>
<tr>
<th>Table 4.1: Response Rate</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non Respondent</td>
<td>108</td>
<td>30%</td>
</tr>
<tr>
<td>Actual Respondents</td>
<td>252</td>
<td>70%</td>
</tr>
<tr>
<td>Target Population</td>
<td>360</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: (Field data, 2012)

4.2 Demographic Information

In order to capture the general information of the respondents' demographics such as gender, age, level of education and the years and frequency of banking were discussed.
4.2.1 Gender

The findings showed that majority (71%) of the respondents were men while female constituted 29% of the respondents. The findings are illustrated in the figure 4.1 below.

Figure 4.1 Gender of the respondents

Source: (Field data, 2012)

4.2.2 Age of respondents

Finding indicate that majority (53%) of the respondents were between the ages of 20 to 29 years, 33% of the respondents were between the ages of 30 to 39 years, 10% were between 40 to 49 years while the respondents aged above 50 years and below 20 years comprised 2% and 1% respectively. The findings are shown in the table 4.2 below.
Table 4.2: Respondents Age

<table>
<thead>
<tr>
<th>Age (Years)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 20</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>20 - 29</td>
<td>134</td>
<td>53</td>
</tr>
<tr>
<td>30 - 39</td>
<td>85</td>
<td>34</td>
</tr>
<tr>
<td>40 - 49</td>
<td>25</td>
<td>10</td>
</tr>
<tr>
<td>Above 50</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>252</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: (Field data, 2012)

4.2.3: Level of Education

The findings indicated that majority (59.2%) of the respondents have university education, 22.4% have college level education, while the respondents who possess post graduate degree and secondary level education were 9.2% and 8.2% respectively. Only 1% of the respondents have basic education as the highest level of education.

Table 4.3: Education level

<table>
<thead>
<tr>
<th>Education level</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary level</td>
<td>3</td>
<td>1.0</td>
</tr>
<tr>
<td>Secondary level</td>
<td>21</td>
<td>8.2</td>
</tr>
<tr>
<td>Diploma education</td>
<td>57</td>
<td>22.4</td>
</tr>
<tr>
<td>University level</td>
<td>149</td>
<td>59.2</td>
</tr>
<tr>
<td>Post graduate level</td>
<td>23</td>
<td>9.2</td>
</tr>
<tr>
<td>Total</td>
<td>252</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: (Field data, 2012)
4.2.4 Occupation of the respondents

The findings indicate that majority (65.3%) of the respondents were in formal employment in different areas, 30% of the respondents were unemployed or in jobs that were freelance and 4.7% of the respondents were self employed in business operations. The findings are shown in the figure 4.2.

![Occupation of the respondents](image)

**Figure 4.2 Occupation of the respondents**

*Source: (Field data, 2012)*

4.2.5 Average income per month

The finding shows that majority (35.4%) of the respondents earning 20,000 to 39,999 shillings per month, 26.3% earn below 19,999 shillings per month, 19.7% earn between 40,000 to 59,999 shillings, 8.8% earn between 80,000 to 99,999, 5.4% earn 100,000 shillings and above while 4.4% earn between 60,000 to 79,999. The findings are indicated in the table 4.4.
Table 4.4 Average monthly income

<table>
<thead>
<tr>
<th>Monthly income</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 19999</td>
<td>66</td>
<td>26.3</td>
</tr>
<tr>
<td>20000-39999</td>
<td>89</td>
<td>35.4</td>
</tr>
<tr>
<td>40000-59999</td>
<td>50</td>
<td>19.7</td>
</tr>
<tr>
<td>60000-79999</td>
<td>11</td>
<td>4.4</td>
</tr>
<tr>
<td>80000-99999</td>
<td>22</td>
<td>8.8</td>
</tr>
<tr>
<td>Ksh 100,000</td>
<td>14</td>
<td>5.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>252</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: (Field data, 2012)

4.3 Banking institution of the respondents

The majority (31.3%) of the respondents indicated Equity bank as their preferred banking institution, 20.8% indicated Cooperative Bank, 19.8% indicated other banks, 13.5% indicated Kenya Commercial Bank while Standard Chartered and Barclays bank recorded 7.3% and 6.3% of the respondents. Other micro finance institution recorded 1% preference while building societies did not record any preference. The findings are as indicated in table 4.5

Table 4.5 Preferred banking institution

<table>
<thead>
<tr>
<th>Banking Institution</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>KCB</td>
<td>34</td>
<td>13.5</td>
</tr>
<tr>
<td>Equity</td>
<td>79</td>
<td>31.3</td>
</tr>
<tr>
<td>Barclays</td>
<td>16</td>
<td>6.3</td>
</tr>
<tr>
<td>Coop Bank</td>
<td>53</td>
<td>20.8</td>
</tr>
<tr>
<td>Standard Chartered</td>
<td>18</td>
<td>7.3</td>
</tr>
<tr>
<td>Other Banks</td>
<td>49</td>
<td>19.8</td>
</tr>
<tr>
<td>Other Building Society</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other Micro finance</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>252</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: (Field data, 2012)
4.3.2 Duration of relationship

Findings indicate that majority (52%) of the respondents have been in their current bank for between 2 to 5 years, 24% have banked for between 6 to 10 years, 17% have banked for above 10 years and 7% of the respondents have banked for a period below 1 year.

![Duration of service chart]

Figure 4.3: Duration of service
Source: (Field data, 2012)

4.3.3 Reasons for choosing the current bank

Findings indicate that majority (44.9%) of the respondents view branch location as the initial reason for banking with their preferred bank; 42.9% indicated high quality services received from their banks; 33.7% like the variety of products offered by the bank; 28.6 indicated trust for their bank; 25.5% reported security; 18.4% indicated the perceived value as the reason for choosing their bank; 16.3% of the respondent indicated that they were recommended by someone while 12.2% of the respondents indicated corporate image as the major reason for choosing their
bank. The table 4.6 below shows the initial reasons for banking with the current bank with multiple responses allowed.

### Table 4.6 Reason for the selecting the preferred bank

<table>
<thead>
<tr>
<th>Reason for Banking</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch location</td>
<td>113</td>
<td>44.9</td>
</tr>
<tr>
<td>Quality of services</td>
<td>108</td>
<td>42.9</td>
</tr>
<tr>
<td>Variety of products offered by the bank</td>
<td>85</td>
<td>33.7</td>
</tr>
<tr>
<td>Trust</td>
<td>72</td>
<td>28.6</td>
</tr>
<tr>
<td>Perceived value</td>
<td>47</td>
<td>18.4</td>
</tr>
<tr>
<td>Reputation/ Corporate image</td>
<td>31</td>
<td>12.2</td>
</tr>
<tr>
<td>Security</td>
<td>65</td>
<td>25.5</td>
</tr>
<tr>
<td>Recommended by someone</td>
<td>42</td>
<td>16.3</td>
</tr>
</tbody>
</table>

Source: *(Field data, 2012)*.

#### 4.3.4 Frequency of transacting with the preferred bank

Findings indicate that majority (28.4%) of the respondents transact on a weekly basis, 25.3% of the respondents transact once in two weeks, 23.2% indicated that they transact once in a month, 11.6% of the respondents transact daily and less often respectively. The findings are indicated in figure 4.4.
4.3.5 Number of banks used

The researcher aimed to find out whether the respondents operated accounts in other banks. Findings indicate that majority (50%) the respondents operate two banks, 24.4% operate only one bank, 20.2% operate three banks, 4.3% operate four banks and 1% operates accounts with more than four banks. The results are as shown in table 4.7

Table 4.7 Respondents’ number of banks

<table>
<thead>
<tr>
<th>Numbers of banks used</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>60</td>
<td>24.4</td>
</tr>
<tr>
<td>2</td>
<td>126</td>
<td>50</td>
</tr>
<tr>
<td>3</td>
<td>51</td>
<td>20.2</td>
</tr>
<tr>
<td>4</td>
<td>11</td>
<td>4.3</td>
</tr>
<tr>
<td>More than 4</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>252</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: (Field data, 2012)
4.3.6 Likelihood of switching banks

Findings indicate that 47.8% are unlikely to transfer major banking from the current preferred bank, 27.2% were likely to transfer their banking while 25% of the respondents were unsure as to whether they would transfer their banking. The results are indicated in the figure 4.5

![Switching likelihood chart]

Figure 4.5: Switching likelihood
Source: (Field data, 2012)

FINDING RELEVANT TO THE STUDY OBJECTIVES

4.4. Quality of the services rendered to the customers

A scale of 1-5 was used in rating responses towards the quality of services in banking industry in Nairobi and its effects on the customer loyalty. Customers were provided with statements on service quality on their preferred bank and were asked to indicate their opinion on the subject. The scores “strongly disagree” and “disagree” were represented by mean score, equivalent to 1 to 2 on a continuous likert scale. The scores of “not sure” was equivalent to 3 on the likert scale. The score of agree and strong agree represented high degree of agreement and was equivalent to 4 to 5 on the likert scale. The result as were as presented in table 4.8
Table 4.8 Effects of service quality on the customer loyalty

<table>
<thead>
<tr>
<th>Service quality</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>My bank’s employees are knowledgeable, efficient, and welcoming.</td>
<td>4.31</td>
<td>0.33</td>
</tr>
<tr>
<td>My bank uses my feedback and opinions to improve the products and services it offers</td>
<td>4.42</td>
<td>1.25</td>
</tr>
<tr>
<td>My bank advises me on products and services that are appropriate to my needs</td>
<td>3.82</td>
<td>3.00</td>
</tr>
<tr>
<td>My bank anticipates my needs with innovative products and services before I know I need them</td>
<td>2.33</td>
<td>23.0</td>
</tr>
<tr>
<td>When my bank promises to do something by a certain time it does so</td>
<td>3.55</td>
<td>12.1</td>
</tr>
<tr>
<td>My bank performs the service right the first time</td>
<td>3.93</td>
<td>0.19</td>
</tr>
<tr>
<td>My bank shows great interest in helping me when problems occur</td>
<td>3.61</td>
<td>2.11</td>
</tr>
<tr>
<td>I care about the reliability and availability of my banking service providers to deliver what I want by the time I need them to</td>
<td>4.23</td>
<td>0.21</td>
</tr>
<tr>
<td>My bank accords me individualised attention and they have established a personal relationship with me</td>
<td>4.11</td>
<td>1.22</td>
</tr>
</tbody>
</table>

Source, Field data, 2012

The findings show that the quality of service affects customers’ loyalty to the preferred bank. Majority of the respondents reported that their preferred bank uses customers’ feedback and opinions to improve the products and services (4.42 mean score); the bank’s employees are knowledgeable and welcoming (4.31 mean score); the bank was reliable and available when they were needed (4.23 mean score) and that the bank accord individualised attention to its customers (4.11 mean score). The bank always performs the service right (3.93 mean score); it advises customers on the appropriate products and services to suit their individual needs (3.82 mean
score) and shows concern when a customer is in financial problems (3.61 mean score). The bank always delivers on its promises on time (3.55 mean score). However, the bank does not anticipate the customers’ needs before the customer was aware of the needs (2.33 mean score). Majority of the respondents agreed that quality services would greatly influence their loyalty to the bank.

4.5 Perceived value of bank products

A scale of 1-5 was used in rating responses towards the value of services in banking industry in Nairobi and its effects on the customer loyalty. Customers were provided with statements on value of the service in their preferred bank and were asked to indicate their opinion on the subject. The results are illustrated in table 4.9

Table 4.9 Perceived value of banks’ products

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>I value the deal of products and services that my bank provides to me</td>
<td>4.15</td>
<td>1.42</td>
</tr>
<tr>
<td>Offering me rewards makes me value my relationship more with my bank</td>
<td>4.02</td>
<td>0.03</td>
</tr>
<tr>
<td>If my bank sent cards or gifts at special occasions that would make me</td>
<td>4.51</td>
<td>1.02</td>
</tr>
<tr>
<td>more loyal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>My bank provides products and services from other companies to solve my</td>
<td>3.96</td>
<td>18.2</td>
</tr>
<tr>
<td>problems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I would be more loyal if my bank reduced their charges and interest rates</td>
<td>4.71</td>
<td>0.12</td>
</tr>
</tbody>
</table>

Source, Field data, 2012

Findings indicate that reduction of bank charges and interest rate would increase customer loyalty (4.71 mean score), Sending cards or gifts on special occasions would increase customers
loyalty (4.51 mean score) and that customer value the deal of products and services provided by their banks (4.15 mean score) and therefore offering rewards strengthen their relationship with the bank (4.02 mean score). Some of the banks provide products and services from other companies to solve customers' needs (3.96 mean score). This illustrates that increase in value of the banks' service would lead to an increase in customer loyalty.

4.6 Effects of trust on customer loyalty

A Likert scale of 1-5 was used in rating responses towards the customers' trust on the bank and its effects on loyalty. The findings are illustrated in table 10.

<table>
<thead>
<tr>
<th>Table 4.10 Customers trust on bank product and service</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>I believe that my bank has integrity and that its banking staff will honour their words</td>
<td>4.34</td>
<td>1.11</td>
</tr>
<tr>
<td>I believe that my bank treats me with openness, honesty and respect</td>
<td>4.12</td>
<td>0.76</td>
</tr>
<tr>
<td>I feel financially safe in dealing with bank online</td>
<td>4.50</td>
<td>5.21</td>
</tr>
<tr>
<td>I feel financially safe in dealing with bank on phone</td>
<td>4.09</td>
<td>3.00</td>
</tr>
<tr>
<td>I feel financially safe in dealing with bank in the branches</td>
<td>4.71</td>
<td>0.01</td>
</tr>
<tr>
<td>My bank ensures confidentiality of my financial and personal information</td>
<td>3.88</td>
<td>0.13</td>
</tr>
<tr>
<td>I rely on the bank for providing accurate data</td>
<td>3.00</td>
<td>0.32</td>
</tr>
<tr>
<td>I would recommend my bank to others</td>
<td>4.00</td>
<td>0.21</td>
</tr>
</tbody>
</table>

Source, Field data, 2012

Findings show that trust is key to customer loyalty and that majority of the respondents feel safe dealing with the bank in the branch (4.71 mean score) because they believe the bank has integrity.
and good staff (4.34 mean score) who treat them with openness, honesty and respect (4.12 mean score). On the other hand the customers feel financially safe in dealing with bank on phone (4.09 mean score) and would recommend their bank to others (4.00 mean score). They believe their bank ensures confidentiality on their financial information (3.88 mean score) and therefore can rely on the bank to provide accurate information (3.00 mean score).

Table 4.11: Correlation of variables

<table>
<thead>
<tr>
<th></th>
<th>Quality of banking services</th>
<th>Value of banking services</th>
<th>Customer trust on the bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of banking services</td>
<td>Pearson correlation</td>
<td>1.00</td>
<td>.818*</td>
</tr>
<tr>
<td></td>
<td>Sig.(2 tailed)</td>
<td></td>
<td>.000</td>
</tr>
<tr>
<td>Value of banking services</td>
<td>Pearson correlation</td>
<td>.511</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>Sig.(2 tailed)</td>
<td>.004</td>
<td></td>
</tr>
<tr>
<td>Customer trust on the bank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig.(2 tailed)</td>
<td>.002</td>
<td>.003</td>
</tr>
</tbody>
</table>

*. Correlation is significant at the 0.05 level (2-tailed)

Source (Field data, 2012)

From the above correlation table 4.7 all the variables have a positive relationship with each other at 0.05 significance level. Quality of service has a strong positive relationship with customer loyalty. Perceived value of service too has a strong relationship with customer trust on the banking relation thus a relationship with customer loyalty.
CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter consists of a summary of the findings of the research, conclusions relating to the research objectives, suggestions and recommendations on the factors affecting customer loyalty in the banking industry in Kenya.

5.2 Summary of the findings

The study aimed at evaluating the factors that affect customer loyalty in the banking industry in Kenya. The study targeted a total of 360 respondents and there was a response rate of 70%. The study established that 97% of the respondents were aged between 20 - 50 years. Out of these over 81 of the respondents either have college or university level of education and 65% were formally employed. 77% of the customers hold accounts with the five major banks in Kenya.

Although the choice of a bank was highly influenced by the branch location, quality of bank services effects on bank preference and customer loyalty. The study reviewed that 43% of the customer agreed that quality of services influence their major banking operation. Weekly operations were preferred and 76% of the customers had been in their current bank between 2 to 10 years. They attributed the high quality services to timely feedback, regard for their opinions, employees' knowledge and reliability. This clearly indicates that quality of services affect loyalty.
The study established that 18% of the customers preferred their current bank due the perceived value of bank services. Although over 75% had more than one account they cited 48% unlikelihood to transfers major banking from their current bank. However, there was general feeling that most customers feel valued when offered personalized services and were likely to remain loyal to their bank.

In regard to the customers’ trust on the bank services, 29% of the customer loyalty was attributed to customer trust. They felt that could trust their current bank on integrity, banking transactions and their financial and personal information. Majority of the customers would recommend the bank services to someone else. The study established that trust has a strong positive relationship with customer loyalty.

5.3 Conclusion

The purpose of this study was to evaluate factors affecting customer loyalty in the banking industry in Kenya.

The first objective was to ascertain whether quality of service affects customer loyalty in the banking industry in Kenya. The findings revealed that quality of products and services influenced a customer’s choice of a bank. The bank can enhance the quality by equipping staff with necessary knowledge, increasing efficiency in their operations, and utilizing customers’ feedback to better their services.

The second objective was to determine how perceived quality of services affects customer loyalty in the banking sector in Kenya. The various statements tested revealed a strong
relationship between customer perception on services and their loyalty. The perception is influenced by offers and rewards given by the bank regardless of whether they wholly belong to the bank or not. Customers highly appreciate good services at a more reasonable price.

The third objective was to find out if trust in a bank affects customer loyalty in the Kenyan banking industry. The findings revealed a strong relationship between customer trust and customer loyalty. The study further revealed that integrity, openness, accuracy and security are the major components of building trust.

5.4 Recommendations

On the basis of the findings the following recommendations can be made:

- The Kenyan banks should ensure superior quality of products and services they offer to the public so as to grow and retain their market share.

- Every bank should strive to create and enhance value on the services and products it offers as this will give it a competitive advantage over the other competing banks.

- The Kenyan banks should adopt confidentiality and security measures to safeguard the customers' interests and consequent trust.

- The Banks in Kenya should set aside money for innovation so as to anticipate the needs of the customers and improvise products to suit those needs.

- The banks should invest in training programs tailored towards equipping their staff with knowledge about the bank its products and services as well as customer service.
• The Banks should offer loyalty programs, reward their loyal customers as well as cross sell their products to existing clientele to ensure more sales from their loyal customers.

• Banks should visibly and creatively brand themselves to enhance their corporate image and reputation.

• There should be no room for mistakes in the banking industry as performing the service right the first time displays reliability and efficiency.

• Customer feedback and opinions should be incorporated by the bank in improving their products and services.

• Customer complaints must be handled with utmost care and speed to ensure customer satisfaction in order to build a lasting loyal relationship with the customer.

• Open and honest communication between the customer and the bank minimizes chances of misunderstanding thereby enhancing trust between the two.

5.5 Suggestions for further research

Other areas which might be explored in future include:

• Factors affecting customer loyalty in other parts of the world especially in Africa and other developing countries.

• Factors affecting customer loyalty in other sectors of the economy in Kenya other than the banking and financial services sector.

• The effect of technology and innovation as an intervening variable on Customer loyalty in the banking sector in Kenya.
• The effects of competition as an intervening variable on customer loyalty in the financial services sector in Kenya

• Factors that lead to divided customer loyalty in Kenyan banking sector.

• The effects of bank charges and interest rates on customer loyalty in the Kenyan banking sector.

• The effects of customer satisfaction as an intervening variable on customer loyalty in the banking sector in Kenya.
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APPENDIX 1: INTRODUCTION LETTER

KENYATTA UNIVERSITY
SCHOOL OF BUSINESS
DOCTORAL AND MBA COORDINATION OFFICE
P.O. BOX 43844,
NAIROBI,
KENYA
Tel : 8710901-19 Ext. 57500

10th October, 2012.

TO WHOM IT MAY CONCERN,

RE: KINU BENNAH WAHU -D53/PT/12442/2009

This is to confirm that the above named is a Master of Business Administration MBA (Marketing) student in the school of Business, Kenyatta University.

She is through with course work and has successfully defended her Masters Degree proposal (An investigation of the factors affecting customer loyalty in the Banking sector in Kenya: A survey of bank customers in Nairobi) and has done all the corrections that were pointed out by the examiners during the defense. She is now embarking on data collection.

Any assistance accorded her will be highly appreciated by this office.

Thank you.

Signed,

ISAAC P. LOKERIS,
FOR DOCTORAL AND MBA PROGRAMMES COORDINATOR
APPENDIX 2: THE CONSENT STATEMENT

You are invited to participate in our study on Customer Loyalty in the banking industry in Nairobi. This questionnaire forms part of an MBA study for Kenyatta University and is strictly for academic and not commercial purposes. In this survey, approximately 360 people will be asked to complete a questionnaire that is designed to measure your opinion regarding customer loyalty in terms of the customer service offered by your bank, the perceived value of your banking package and the trust between you and your bank. It will take approximately 10 minutes to complete the questionnaire. The information you provide in this questionnaire will not be reported to any bank. Your survey responses will be strictly confidential and data from this research will be reported only in the aggregate. Your information will be coded and will remain confidential. Your participation in this study is completely voluntary. There are no foreseeable risks associated with this project. However, if you feel uncomfortable answering any questions, you can withdraw from the survey at any point. It is very important for us to learn your opinions. Thank you very much for your participation. We highly appreciate your help in carrying out this research project.
APPENDIX 3: SCREENING GUIDE

1. Do you have a bank account? Please select one. (optional)

   Yes [ ]
   No [ ]

2. For how long have you operated a bank account? Please select one

   Below one year [ ]
   Between two and five years [ ]
   Between six and ten years [ ]
   Above ten years [ ]

(If one is a bank account holder give the questionnaire)
APPENDIX 4: THE QUESTIONNAIRE

Section 1: personal data

1. What is your name? (Optional) -----------------------------------------------

2. What is your gender? Please tick one Male [ ] Female [ ]

3. Where is the home branch of your bank located?  

4. Where do you reside?  

5. What is your occupation?  

6. What is your level of education?  

7. In what age bracket do you fall? Please tick one.
   Below 20 years [ ]
   Between 20 and 29 years [ ]
   Between 30 and 39 years [ ]
   Between 40 and 49 years [ ]
   Above 50 years [ ]

8. What is your average income range per month? Please tick one.
   Ksh 19,999 and below [ ]
   Between ksh 20,000 and 39,999 [ ]
   Between ksh 40,000 and 59,999 [ ]
   Between ksh 60,000 and 79,999 [ ]
   Between ksh 80,000 and 99,999 [ ]
   Kshs 100,000 and above [ ]

9. In which bank do you operate most of your transactions? Please tick one.
   Kenya Commercial Bank [ ]
   Equity Bank [ ]
   Barclays Bank of Kenya [ ]
   Cooperative Bank of Kenya [ ]
   Standard Chartered Bank [ ]
   CFC Stanbic Bank [ ]
   Other commercial bank [ ] Please state which one
   Other building society [ ] Please state which one
   Other microfinance institution [ ] Please state which one

10. For how long have you been a customer at your main bank?( Please select only one)
11. What is the frequency at which you do business with your current main bank? 
(Please select one) 
- Daily  
- Once a week  
- Once in two weeks  
- Once a month  
- Less often  

12. What were the reasons that prompted you originally to choose the bank you do most of your transactions with? (please tick all answers that apply) 
- Security  
- Quality of service  
- Trust  
- Perceived value  
- Branch location  
- Variety of products offered by the bank  
- Reputation/Corporate image  
- Recommendation by someone else  
- Commitment to the bank  
- Other (please specify)  

13. How many banks do you use for your banking? (Please select one answer) 
- One  
- Two  
- Three  
- Four  
- More than four [ ] Please indicate how many.  

14. Which other banks do you use for your banking? 
- Kenya Commercial Bank  
- Equity Bank  
- Barclays Bank of Kenya  
- Cooperative Bank of Kenya  
- Standard Chartered Bank  
- CFC Stanbic Bank  
- Other commercial bank  
- Other building society  
- Please state which one(s)  
- Please state which one(s)  

50
Other microfinance institution(s) ....................

Please state which one(s) ....................

15. What is the likelihood of transferring most of your transactions in the next one year? Tick one.
   Highly likely
   Likely
   Less likely
   Unlikely
   Highly unlikely

Section 2: About your current home branch, please select the answer that expresses how you feel.

<table>
<thead>
<tr>
<th></th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
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<tbody>
<tr>
<td>Strongly agree</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Agree</td>
<td>4</td>
<td></td>
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<tr>
<td>Neither agree</td>
<td>3</td>
<td></td>
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<tr>
<td>Disagree</td>
<td>2</td>
<td></td>
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<tr>
<td>Strongly disagree</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Service quality

16. My bank’s employees are knowledgeable, efficient, and welcoming. Please tick one.

17. My bank uses my feedback and opinions to improve the products and services it offers.

18. My bank advises me on products and services that are appropriate to my needs.

19. My bank anticipates my needs with innovative products and services before I know I need them.

20. When my bank promises to do something by a certain time, it does so.

21. My bank performs the service right the first time.

22. My bank always shows great interest in helping me when problems occur.

23. I care about the reliability and availability of my banking service providers to deliver what I want.
24. My bank provides support to me when I need them

25. My bank accords me individualised attention and they have established a personal relationship with me.

<table>
<thead>
<tr>
<th>Perceived value of the service</th>
<th>5</th>
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<th>3</th>
<th>2</th>
<th>1</th>
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<tr>
<td>26. I value the deal of products and services that my bank provides to me</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27. Offering me rewards makes me value my relationship more with my bank</td>
<td></td>
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<tr>
<td>28. Offering me rewards makes me value my relationship more with my bank</td>
<td></td>
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<tr>
<td>29. If my bank sent cards or gifts at special occasions that would make me more loyal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30. My bank provides products and services from other companies to solve my problems</td>
<td></td>
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<tr>
<td><strong>31. I would be more loyal if my bank reduced their charges and interest rates</strong></td>
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</tbody>
</table>

<table>
<thead>
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<th>Trust</th>
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<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
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</thead>
<tbody>
<tr>
<td>32. I believe that my bank has integrity and that its banking staff will honour their words.</td>
<td></td>
<td></td>
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<tr>
<td>33. I believe that my bank treats me with openness, honesty, and respect.</td>
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<td></td>
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<tr>
<td>34. I feel financially safe in dealing with my bank online</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>35. I feel financially safe in dealing with my bank on phone</td>
<td></td>
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<tr>
<td>36. I feel financially safe in dealing with my bank at a branch</td>
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<tr>
<td>37. My bank ensures confidentiality of my financial and personal information</td>
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</tr>
<tr>
<td>38. I rely on the bank for providing accurate data</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>39. I would recommend my bank to others</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Others</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>40. Quality of Service is a factor that would affect my loyalty to any bank</td>
<td></td>
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<tr>
<td>41. Security is a factor that would affect my loyalty to any bank</td>
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</tr>
<tr>
<td>42. Perceived Value I receive is a factor that would affect my loyalty to any bank</td>
<td></td>
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<td></td>
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<tr>
<td>43. Trust is a factor that would affect my loyalty to any bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>44. Variety of products offered by a bank is a factor that would affect my loyalty to any bank</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>45. Corporate image and reputation is a factor that would affect my loyalty to any bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>46. Branch location is a factor that would affect my loyalty to any bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>47. A recommendation by someone else is a factor that would affect my loyalty to any bank</td>
<td></td>
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</tr>
<tr>
<td>48. Having shared personal values (such as the corporate social responsibility) is a factor that would affect my loyalty to any bank</td>
<td></td>
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<tr>
<td>49. Commitment to a relationship with a bank is a factor that would affect my loyalty.</td>
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</tbody>
</table>