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**FACTORS INFLUENCING CUSTOMER LOYALTY IN THE BANKING SECTOR A
CASE OF COMMERCIAL BANKS IN MOMBASA KENYA**

BY

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DEGREE**

Customer loyalty HF 54

Customer satisfaction

KENYATTA UNIVERSITY

Korio Elkana Cheruiyot
*Factors influencing
customer loyalty in the*



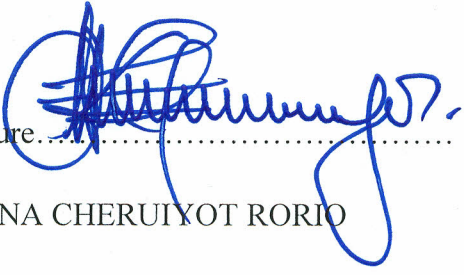
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This Research project has been submitted with my approval as the university Supervisor.

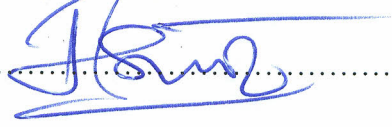
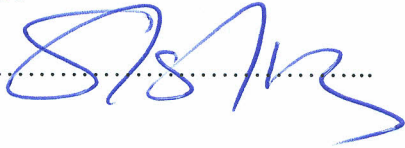
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DEDICATION

This research project is dedicated to my parents John Kiptarus Keiyo and Sarah Keiyo, my fiancée Priscah Kemei, my daughters Nevyll Rorio and Michelle Rorio

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First I thank the almighty God for the life and health he gave me during this time of writing my project. I am also greatly indebted to my university supervisor Mr. Maina for his guidance on writing this project.

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LIST OF ABBREVIATIONS AND ACRONYMS

ACSI-	American Customer Satisfaction Index
CBK-	Central Bank of Kenya
ECSI-	European Customer Satisfaction Index
SME-	Small and Medium Enterprise
SPSS-	Statistical Package for Social Science
USA-	United States of America

ABSTRACT

The purpose of the study was to establish the factors influencing customer loyalty in the banking sector, a case of commercial banks in Mombasa, Kenya. In the highly competitive, complex and dynamic environment of the banking industry, the very slight differences which exist in financial services and products together with an increasingly demanding customer have led to a great transformation in the industry. As markets become more competitive, many companies recognize the importance of retaining current customers and some have initiated a variety of activities to improve customer loyalty. The overall objective of this study was to find out the factors influencing customer loyalty in the banking sector. The objectives of the study included: establishing how the quality of services affect customer loyalty in the banking industry, determine the challenges of keeping a customer loyal to a bank in the banking industry and finally establish the benefits that accrue from keeping the customer loyal to a bank in the banking industry. The banks included in this study were commercial banks in Mombasa City. The Descriptive survey research design was utilized in this study. Bank managers and customers from the selected banks constituted the target population. In this study, the researcher divided the banks into two groups based on the duration they have been in operation in Mombasa City. A stratified random sample was a useful blend of randomization and categorization, which enabled both quantitative and qualitative process of research to be undertaken. The research instruments that were used were the questionnaires and interviews. In this study, data was analyzed using descriptive statistical techniques which included frequencies, means, modes and percentages. Data was presented by use of frequency tables, charts and graphs. This was done using the Statistical Package for Social Science (SPSS) computer programme. Results obtained showed that quality of service plays a ritual role in influencing customer loyalty hence the need for all banks to practice courtesy all the time.

CHAPTER ONE; INTRODUCTION

1.1 Background of the study

In the highly competitive, complex and dynamic environment of the banking industry, their very slight differences which exist in financial services and products together with an increasingly demanding customer have led to a great transformation in the industry. The traditional product-oriented bank is becoming increasingly customer-oriented in accordance with the basic principles of relational marketing, which focuses on customer loyalty as its main goal. In this sense, Gilmore (1997) considers that constant customer-oriented behaviour is a requisite for improving the implementation of quality in services marketing. Indeed, factors such as financial products and distribution have attained similar levels of development and technology and have thus been relegated to a secondary role as reference points for distinguishing between one bank and another (Rodríguez Sa´nchez and Rodríguez Parada, 1993). In this sense, Barnes and Howlett (1998) argue that, given that many financial services are parity offerings, it can be stated that a customer is unlikely to be overly impressed by core product attributes when all companies are providing similar offerings.

The service sector is playing an increasingly important role in the economy of many countries in the world. The importance of service and service research has been stressed in the research priorities recently set by Ostrom McLean (2010). In the academic world, there is a wealth of research conducted to address various issues in service marketing, including consumer behavior towards services (Taylor and Baker, 1994; Kang and James, 2004; Cheng et al., 2008).

Particularly, several studies have attempted to identify the determinants of customer satisfaction and loyalty in various service industries (Patterson and Kang, 1997). The majority of these studies were based on factors related to functional attributes of the services (Young and Feigi, 1975; Olson and Reynolds, 1983), service quality (Parasuraman et al., 1988; Cronin and Taylor, 1992; Taylor and Baker, 1994), or service value (Zeithaml, 1988; Cronin et al., 1997). These factors can be referred to the first three levels in the four-level hierarchical model suggested by Zeithaml (1988) to address the behavior of consumers towards service consumption. Literature

shows that research endeavors towards finding a better explanation of customer satisfaction and loyalty are still going on (Chaudhuri and Ligas, 2009; Faullant et al., 2008).

In an attempt to search for potential antecedents that have high power to explain consumer's satisfaction and loyalty toward services, this research employs the concept of personal values (Rokeach, 1973). This concept was suggested as the fourth hierarchical level in Zeithaml model in 1988, but received little attention from the research community since its conception (Lages and Fernandes, 2005); as stressed by Marandi et al. (2006, p. 339): "the impact of values on customer loyalty has not been investigated in the literature. This is true even though customer loyalty is a topical issue in marketing".

The commercial banking industry in Kenya has been in a state of constant change ever since liberalization and this has seen new sources of risks emerge. More change always demands more leadership. The leadership challenge is therefore to galvanize commitment among people within the organization as well as with stakeholders outside the organization to embrace change and implement strategies intended to position the organization to overcome the challenges arising from the change.

Kenya features a commercial banking system dominated by numerous commercial banks and a small number of non-bank financial institutions, which concentrate mainly on mortgage finance, insurance and other related financial services. Over the years, the sector has grown into a more complex scene of banking institutions of different types and ownership. The financial services industry in Kenya has become visible and fiercely competitive. What worked for corporations in the past has been re-engineered; re-evaluated, reprocessed, and reinvented in the hope of entering this new era with an edge on competition. Each corporation has a strategy unique to its corporate culture, but all of these banking institutions have the same desire: to be the customer's number one choice for their banking products and services. Customers equal profitability, and profitability equates to future success and prosperity. The banking industry has witnessed an evolution from the old way of doing business.

Currently, commercial banks are pushing the Central Bank of Kenya to revise the treasury bills rates upwards so that the banks can increase their lending interest rates (Anyanzwa and Okoth, 2008). The average lending interest rates stood at 12.76% in April 2008 and banks are considering revising their rates so as to match inflation that is currently at 29.26% (Anyanzwa and Okoth, 2008).

In Mombasa, there are a number of banks. For instance, KCB which is the oldest bank in the coast has its history dating back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa. Eight years later in 1904, the Bank extended its operations to Nairobi, which had become the Headquarters of the expanding railway line to Uganda. The next major change in the Bank's history came in 1958. Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank. Upon independence, the Government of Kenya acquired 60% shareholding in National & Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the Government acquired 100% of the shares to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was renamed Kenya Commercial Bank.

Standard chartered is the second oldest Bank in Mombasa which opened its first two branches in Nairobi and Mombasa in 1911. Other banks in Mombasa include, Bank of Africa, ABC Bank, Bank of Baroda, Bank of India, Citibank, Bank of Africa, Consolidated Bank, Eco Bank, Equatorial Commercial Bank, Equity Bank, Family Bank, Fidelity Commercial Bank, Fina Bank, Guardian Bank, Gulf bank, Housing Finance Bank, K-Rep Bank, Kenya Commercial Bank, Middle East Bank, National Bank of Kenya, Paramount Universal Bank, Prime Bank and Trans-National Bank

Mombasa County is located along the shores of the Indian Ocean in the Kenyan coastline. Its located on the South Eastern part of the Kenyan Coast. Mombasa County has several attractions which include; Fort Jesus, Beaches, Water Sports, Mombasa Marine National Park, Nature trail and Tourist Hotels.

1.2 Statement of the Problem

Kenya has experienced banking problems since 1986 culminating in major bank failures (37 failed banks as at 1998) following the crises of; 1986 - 1989, 1993/1994 and 1998 (Kithinji and Waweru, 2007; Ngugi, 2001). Presently, several developed countries including the USA are experiencing a banking crisis. For example the Citibank group alone, has written off more than \$39 billion in losses (Elliot, 2008).

In Kenya, a scramble for customers between the countries's over 40 banks has tightened competition, especially in the retail, small and medium enterprises markets. And it appears the route to these markets is paved with more and more branches. Yet making the Kenyan capital its launching pad for its assault on the regional market is not entirely unique. As markets become more competitive, many companies recognize the importance of retaining current customers and some have initiated a variety of activities to improve customer loyalty. The banking industry being very competitive and homogeneous, it may be very difficult to maintain a customer. A study by Anyim Kevin Ouma and Justus Munyoki (2010) investigated into the marketing strategies used by commercial banks in managing service breakdown among SME customers in Kenya. The findings revealed that that quality management of services greatly enhanced the profitability of banks. Another study by Gabriel Wasike (2010) investigated the competitive strategies adopted by Barclays Bank of Kenya in counteracting industry competition, while Kazi Omar Siddiqi (2009) investigated the drivers of customer loyalty to retail banks in Bangladesh. It is observed that the quality of services and customer loyalty are of key interest in the banking sector. Of all these studies, none has endeavored to find out factors influencing customer loyalty. It is as a result of this that this study intends to fill the gap as regards to the factors influencing customer loyalty in the banking sector.

1.3 Research Objectives

The general objective of this study was to determine the factors influencing customer loyalty in the banking industry in Kenya.

The following are the specific objectives of the study:

- i) To establish the influence of quality of service on customer loyalty in the banking industry
- ii) To determine the challenges of keeping a customer loyal to a bank in the banking industry
- iii) To establish the benefits that accrue from keeping the customer loyal to a bank in the banking industry

1.4 Research Questions

The study sought to answer the following questions:

- i) In what ways does the quality of services influence customer loyalty in the banking industry?
- ii) What are the challenges of keeping a customer loyal to a bank in the banking industry?
- iii) What are the benefits that accrue from keeping the customer loyal to a bank in the banking industry?

1.5 Significance of the Study

The managers at the commercial banks will gain additional knowledge in relation to the issues that need to be addressed to retain customers. This will enable them to beat the competition experienced from other banks. The customers will be able to understand the factors that need to be put in place to be able to obtain adequate and quality service. They will be adequately informed on what they should demand from the banks.

The study focuses on the topic of customer loyalty, in this regard; scholars in this area will use this study as a form of reference. In addition, researchers will be able to gain additional knowledge from the case study given that it is focusing on a particular bank. The findings of this study will also be invaluable to policy makers in the banking industry in formulation and implementation of effective banking policies that will improve the quality of services in banking and in turn enhance customer loyalty.

1.6 Scope of the Study

This study focused on the factors influencing customer loyalty in commercial banks. The banks included in this study were commercial banks in Mombasa town. The respondents were the managers, middle level employees of the banks and the customers.

1.7 Definition of terms

Customer loyalty: A customer's demonstration of faithful adherence to an institution (or Merchant) despite the occasional error or indifference service.

Customer retention: The ability to hold customers over time. It is a direct measure of the institution ability to maintain relationship with customers.

Customer satisfaction- A customer satisfaction perception that his/her needs wishes, expectations or desires with regard to products and services have been fulfilled

CHAPTER TWO; LITERATURE REVIEW

2.1 Theoretical Framework

This study was guided by the 3C's model by Ohmae (1982) who postulates that only by integrating the three C's (Customer, Competitor, and Company) in a strategic approach can competitive advantage be sustained. Kenichi Ohmae refers to these key factors as the three C's or the strategic triangle.

Ohmae observes that the 3C's model: Customer-based strategies are the basis of all strategies. He therefore believes that there is no doubt that a corporation's foremost concern ought to be the interest of its customers rather than that of its stockholders and other parties so as to win the customers' trust and keep them loyal. In the long run therefore, the corporation that is genuinely interested in its customers will enjoy sustained customer loyalty.

He further argues that the 3 Cs are the potential determinants of the satisfaction-loyalty relationship. Differences in customer, firm and industry characteristics can result in dramatically different competitive settings, which are likely to cause significant variations in the levels of satisfaction and loyalty, and thus, determine the strength of the satisfaction-loyalty association. This study sought to understand the factors which are likely influence to influence customer loyalty.

2.2 The determinants of customer loyalty in the banking sector

Most scientists agree that customer loyalty is important. Customer loyalty is defined as a practice in which a customer over time engages one company to satisfy entirely, or a significant part, of her needs by using the company's products or services (Blomqvist et al, 2000). Customer loyalty means that the customer is loyal to the company and only turns to a competitor in exceptional cases. For example, when customers are loyal to a specific hotel chain but the hotel chain does not have a hotel in the area where customers are. Customer loyalty is not a permanent thing. If the customer value decreases to such a level that it becomes obvious to customers that offers from competitors are better, they will engage in the others instead.

2.2.1 Perceived Quality

A concept which is very closely related with satisfaction and loyalty is perceived quality, and the differences between these have not always been very clearly defined. They have been used on occasion in an indistinct manner. In an attempt to clarify the distinction between satisfaction and perceived quality, Anderson and Sullivan, (1993) consider that satisfaction requires previous consumption experience and depends on price, whereas quality can be perceived without previous consumption experience and does not normally depend on price. However in circumstances where there is little available information or where quality evaluation is difficult, price can be an indicator of quality. In this sense, Stephanie (2007); starting from Oliver's (1997, 1999) conceptual model of service quality and service satisfaction, concluded that these constructs are distinct and have different determinants. Service quality has been found to have a profound input on customer satisfaction and loyalty as a whole and is defined as the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Chumpitaz et al., 2004)

2.2.2 Customer Satisfaction

The satisfaction is yet another important trait which must be taken in to account when shaping the overall loyalty of the customers towards their service providers. In banks, the customers ask themselves about the level of the services and decide about the lack of importance given to them and decide about repurchase behavior after using the services. The level of satisfaction is always high when the customer gives minimum price and gets maximum of usage and profit (Jamal and Kamal, 2004). Dissatisfaction usually occurs when the pricing issues are not suiting the needs of the customers. In banking industry also, the interest rates on loans and charges on the usage of online services such as ATM machines and the processing fee is a major bone of contention between the bank and its customers. If the customer thinks that the charges are more than the needs he churns. The customer initially tries to compromise with the bank but at a certain point he decides to defect. Nowadays, it has become too easy to open an account in any other bank so the switching cost is also minimal. These all factors help customers to switch from the current bank. The response of customer plays a pivot role in the overall satisfaction graph of the

provider. If a customer is satisfied, the loyalty injects automatically and the customer remains with the current providers for a longer and longer period of time (Fox and Poje, 2002).

2.2.3 Switching Cost

As defined by Jones et al. (2002), a switching barrier is any factor that makes it difficult or costly for customers to change providers. Another brand loyalty determinant is known as switching costs, which can be defined as the technical, financial or psychological factors which make it difficult or expensive for a customer to change brand (Shergill and Bing, 2006). For this reason, a switching cost can be seen as a cost that deters customers from demanding a rival firm's brand (Aydin and Ozer, 2005). It can be defined as the technical, financial or psychological factors which make it difficult or expensive for a customer to change brand (Selnes, 2007). When the costs of switching brand are high for the customer, there is a greater probability that the customer will remain loyal in terms of repeat purchase behavior, because of the risk or expense involved in switching and because of the accompanying decrease in the appeal of other alternatives (Kon, 2004).

2.2.4 Trust

Trust has been defined as the willingness to rely on an exchange partner in whom one has confidence (Ostrom and Iacobucci, 1999) or confidence in an exchange partner's reliability and integrity (Morgan and Hunt, 2004). 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). 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 stands 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.

2.2.5 Commitment

Commitment is frequently defined as a desire to maintain a relationship (Moorman, Deshpande and Zaltman 1993; Morgan and Hunt, 1994). Dwyer et al. (1987) describe it as a pledge of continuity, and Pritchard, Havitz and Howard (1999) as resistance to change. In a conceptualization and study of employees' commitment to an organization, Allen and Meyer (1990) identified three types of commitment to an organization: affective, continuance and normative. Affective (or emotional) attachment exists when a strongly committed individual identifies with, is involved in, and enjoys membership in an organization (Allen and Meyer, 1990). Affective commitment is defined as an affective state of mind that is based on a person sharing, identifying with and internalizing the values of an organization and thereby implies liking and emotional attachment (Morgan and Hunt, 2004). Trust in a relationship partner has been positioned as a central factor for customer loyalty (Chaudhuri and Holbrook, 2002) and is a principal factor causing dedication (Berry, 2007).

2.3 Relationship marketing and customer loyalty

The relationship marketing concept emerged within the fields of service marketing and industrial marketing (Christopher et al., 1991; Gummesson, 1991; Lindgreen et al., 2004). Berry (1983) viewed relationship marketing as a strategy to attract, maintain and enhance customer relationships. Gummesson (1993) defined the term as a strategy in which the management of interactions, relationships and networks is a fundamental issue. According to Gronroos (1994), the aim of relationship marketing is to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. Rapp and Collins (1990) suggest, similarly, that its goals are to create and maintain lasting relationships between the firm and its customers that are rewarding for both sides. This is achieved by a mutual symbiosis and fulfilment of promises (Ndubisi 2003a, b). In other words, a

key objective is to foster customer loyalty, which Oliver (1999) defined as a deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite there are situational influence and marketing efforts having the potential to cause switching behavior.

Blomqvist et al. (1993) proposed the following key characteristics of relationship marketing: every customer is considered an individual person or unit; activities of the firm are predominantly directed towards existing customers; implementation is based on interactions and dialogues; and the firm is trying to achieve profitability through the decrease of customer turnover and the strengthening of customer relationships.

2.4 The underpinnings of relationship marketing

The marketing literature has theorised key virtues that underpin relationship marketing, such as trust (Morgan and Hunt, 1994; Veloutsou et al., 2002), commitment (Grossman, 1998; Chan and Ndubisi, 2004), conflict handling (Dwyer et al., 1987; Ndubisi and Chan, 2005), and communication or sharing of secrets (Ndubisi and Chan, 2005; Morgan and Hunt, 1994; Crosby et al., 1990). Ndubisi (2004) has suggested that companies should make sacrifices and worthwhile investments in building relationships with loyal, or at least potentially loyal, customers. It is argued here that the four identified underpinnings of relationship marketing are directly linked to and are capable of predicting customer loyalty.

Trust has been defined as “a willingness to rely on an exchange partner in whom one has confidence” (Moorman et al., 1993). A betrayal of this trust by the supplier or service provider could lead to defection. Schurr and Ozanne (1985) defined the term as the belief that a partner’s word or promise is reliable and a party will fulfil his/her obligations in the relationship. Other authors have defined trust in terms of opportunistic behaviour (Dwyer et al., 1987), shared values (Morgan and Hunt, 1994), mutual goals (Wilson, 1995), uncertainty (Crosby et al., 1990), actions with positive outcomes (Anderson and Narus, 1984) and making and keeping promises (Bitner, 1995). Calonius (1988) emphasized that an integral element of the relationship marketing approach is the promise concept. He argued that the responsibilities of marketing do not only, or predominantly, include giving promises and thus persuading customers as passive

counterparts in the marketplace to act in a given way, but also in keeping promises, which maintains and enhances evolving relationship. Fulfilling promises that have been given is equally important as a means of achieving customer satisfaction, retaining the customer base, and securing long-term profitability (Reichheld and Sasser, 1990), besides fanning the fire of trust. Indeed, one would expect a positive outcome from a partner on whose integrity one could confidently rely (Morgan and Hunt, 1994). Groenroos (1990) believed that the resources of the seller – personnel, technology and systems – have to be used in such a manner that the customer's trust in them, and thereby in the firm itself, is maintained and strengthened.

2.5 Customer loyalty and organizational performance

Evidence abounds (Duncan and Elliot, 2002; Kish, 2000) showing links between customer loyalty and organization profitability, implying that any organization with loyal customers has considerable competitive advantage. This makes studies on customer loyalty essential for bank management. Customers are more likely to be loyal if there is a customer-oriented climate (Clark, 1997). Such climate is established when organizations try to identify genuine customers' needs and design products to meet those needs (Bridgewater, 2001). Valued customers require truly personalized services, which Szymigin and Carrigan (2001) explain as knowing what customers want and do not want and then ensuring that they get what they want. Customers can and do change their bank if their expectations are not met by their existing service provider (Szymigin and Carrigan, 2001). The problem is that customers rarely tell the bank manager in advance what they have decided to do, especially when they decide to leave their existing bank for a competitor (Kish, 2000). In aiding bank management to overcome the problem of customer defection, it becomes imperative for researchers to identify what is in the minds of customers of bank services when they compare what should be offered and provided, and what is actually offered and provided (Stafford, 1994).

Although several factors have been reported as relevant for gaining customer loyalty, nonetheless, customer satisfaction is highly recognized for its fundamental role (Jamal and Naser, 2002). Satisfied customers are more likely to concentrate their business with one bank (Reichheld, 1993), provide recommendations for the bank and invariably reduce a bank's cost of

providing services because there are fewer complaints to deal with. Customer satisfaction is, thus, not only linked to loyalty, but is also linked to bank revenue generation (Federal Express, 1992; Winstanley, 1997).

However, it has been shown that the relationship between satisfaction and loyalty is neither linear nor simple (Jones and Sasser, 1995). High levels of measured satisfaction sometimes go hand in hand with a continuous increase in customer defection and within a banking context the reasons are not so clear (Bloemer et al., 2002). The interactions between customer satisfaction and loyalty have, therefore, been hard to define (Oliver, 1999).

2.6 Customer loyalty in the banking industry

In the retail banking market, the length of relationship between bank and customer is a common feature. The tradition of the industry has been for banks and other financial services organizations to engage in long-term customer relationships. In agreement with Stewart (1998), the reasons for such relationship longevity are open to interpretation. While genuine preference and loyalty may have been instrumental, so also could ignorance, inertia and dependence.

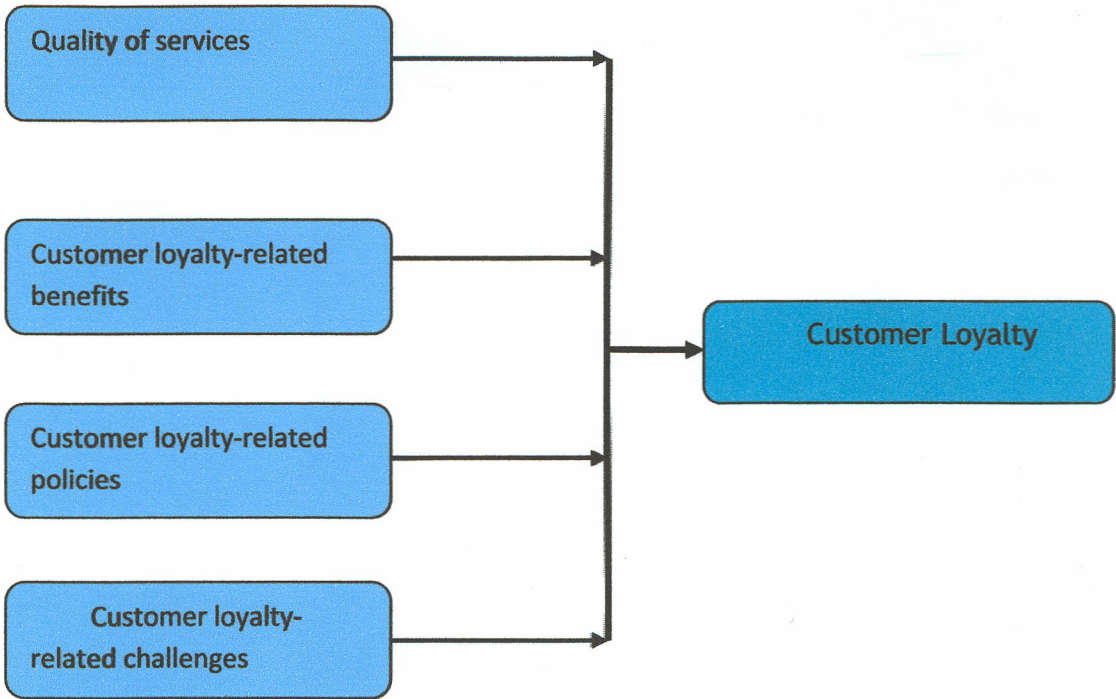
There has been a growing interest in recent years in analyzing the factors influencing customer loyalty. As a result, there are numerous works in marketing which have attempted to explain the relationships between brand loyalty and the various variables regarded as antecedents, the most significant of which are customer satisfaction, and, to a lesser degree, switching costs (Bearden and Teel, 1983). Customer satisfaction is a concept that has been widely debated in literature and for which numerous definitions have been made, but researchers have yet to develop a consensual definition of this concept. In this sense, Oliver (1997, p. 13) notes that “everyone knows what satisfaction is until asked to give a definition. Then it seems, nobody knows”.

Giese and Cote (2000) suggest that consumer satisfaction comprises three basic components: the type of response, that is to say, whether the response is cognitive, affective and its level of intensity, although those authors concluded from their validation, carried out by means of group and personal interview data, that satisfaction is a summary affective response which varies in intensity; the centre of interest or the subject on which the response is focused, which could be

based on an evaluation of product-related standards, product consumption experiences and/or purchase-related attributes (e.g. salesperson); and the moment in time at which the evaluation is made, which may be before choice, after choice, after consumption, after extended experience, or

2.7 Conceptual Framework

Figure 2.2 Conceptual Framework



Independent variables

Dependent variable

Source: Author, (2012)

The conceptual framework above presents the independent variables as customer satisfaction, service quality, trust, supplier brand and service recovery. The dependent variable is customer loyalty. Satisfied customers are able to do a repeat purchase; therefore they are likely to be loyal. A good supplier brand is likely to attract many customers who want to identify with the industry's best provider. Service recovery has brought a new dimension in relation to provision

CHAPTER THREE; RESEARCH METHODOLOGY

3.1 Research Design

This is a descriptive survey aimed at investigating the factors influencing customer loyalty in the banking sector. According to Cooper and Schindler (2003), a study concerned with finding out who, what, when, where and how of a phenomenon is a descriptive study, which was the concern of the proposed study.

3.2 Study Area

This study was carried out in Mombasa City which is the second-largest city in Kenya. A regional cultural and economic hub, Mombasa has a prominent port and an international airport, and is an important regional tourism centre. Situated on the east coast of Kenya, in Coast Province, Mombasa's bordering the Indian Ocean made it a historical trading centre and it was successively controlled by many countries due to its strategic location. Administratively, Mombasa is the capital of Mombasa County and it is a moderately populated. Its population comprises various tribes from other parts of the country, majority of the people who live in the town are low and medium income earners who own medium and small businesses.

3.3 Study Population

A population is the entire group of individuals, events or objects having common observable characteristics. A target population is that population to which a researcher wants to generalize the results of a study (Mugenda and Mugenda, 1999). The study targeted managers, middle level employees and customers of the selected Banks. This population was involved in the study because they interact with the customers and therefore has valuable information for this study.

3.4 Sample Size and Sampling Procedure

Sampling is the process of selecting a sub-set of cases in order to draw conclusions about the entire set. A sample is a small part of large population, which is thought to be representative of the larger population. Any statements made about the sample should be true for the entire population. As noted by Cohen (2003), factors such as expenses, time and accessibility

frequently prevent researchers from gaining information from the whole population. Therefore, there is need to obtain data from a smaller group or subset of the total population in such a way that the knowledge gained is representative of the total population under study.

In this study the researcher divided the banks into two groups based on the duration they have been in operation in Mombasa City. A stratified random sample was useful blend of randomization and categorization, which enables both quantitative and qualitative process of research to be undertaken (Cohen, 2003). The advantage in stratified proportionate random sampling is that it ensures inclusion in the sample of subgroup which otherwise would be omitted entirely by other sampling methods because of their small numbers in the population.

All the managers of the selected banks participated in the study. Simple random sampling was used to select 30% of the middle level employees and 30% of the customers in each of the selected banks. This agrees with Kerlinger (1986) who notes that a sample size of between 10% and 30% was a good representation of the entire population.

3.5 Data Collection methods

The research instruments to be used in collecting data are the questionnaires. A questionnaire is a research instrument that gathers data over a large sample (Kombo & Tromp, 2006). In this study, structured and unstructured questionnaires was used to collect valuable information from customers on the effects of quality of services on the factors influencing customer loyalty in the banking sector. This allowed the respondents to give their opinions where necessary. The advantage of the questionnaire is that it generates a considerable amount of data and enables the researcher to obtain a wider coverage of description data at a comparatively low cost in terms of time, money and effort. Since it is a standard research instrument, it allows for uniformity in the manner in which questions are asked and makes it possible to be compared across respondents (Cohen & Manion, 2003).

Before collecting data, the researcher sought for an introductory letter from Kenyatta University. Further the researcher sought permission from the managers of the selected banks for the study. This was done two weeks prior to the commencement of the study to allow time for any

adjustments and appointments. On the actual dates of the study, the researcher visited individual banks to conduct the research.

3.6 Data Analysis

This refers to the examination of the coded data and making inferences (Kombo and Tromp 2006). In this study, data was analyzed using both descriptive and inferential statistical techniques. The descriptive techniques included frequencies, means, standard deviation and percentages. The mean scores and standard deviations was used because the mean is considered as the most efficient measure of central tendency and the standard deviation as the most efficient measure of dispersion (Dornbusch and Schmid, 1965). A percentage was used to determine the proportions of respondents assessing the factors under study. The inferential statistical technique, the chi-square was used to determine the relationship between the study variables while factor analysis was used to make an analysis of the factors under study. Data was presented by use of frequency tables, charts and graphs. This was done using the Statistical Package for Social Science (SPSS) computer programme.

CHAPTER FOUR; DATA ANALYSIS AND PRESENTATION

4.0 Introduction

This chapter deals with data analysis, presentation, interpretation and discussion of the research findings. In the first section, descriptive statistics are used to provide background information of the respondents who participated in this study. The second section presents the analysis of the responses to the specific objectives of the study as provided by the respondents in the questionnaires and interview schedule. It is observed that the return rate of the research tools was 79% which was sufficient for data analysis. The purpose of this study was to determine the factors influencing customer loyalty in the banking industry in Kenya.

The study sought to achieve the following objectives:-

- i. To determine how the quality of services affect customer loyalty in the banking industry
- ii. To determine the challenges of keeping a customer loyal to a bank in the banking industry
- iii. To establish the benefits that accrue from keeping the customer loyal to a bank in the banking industry

4.1 Background information

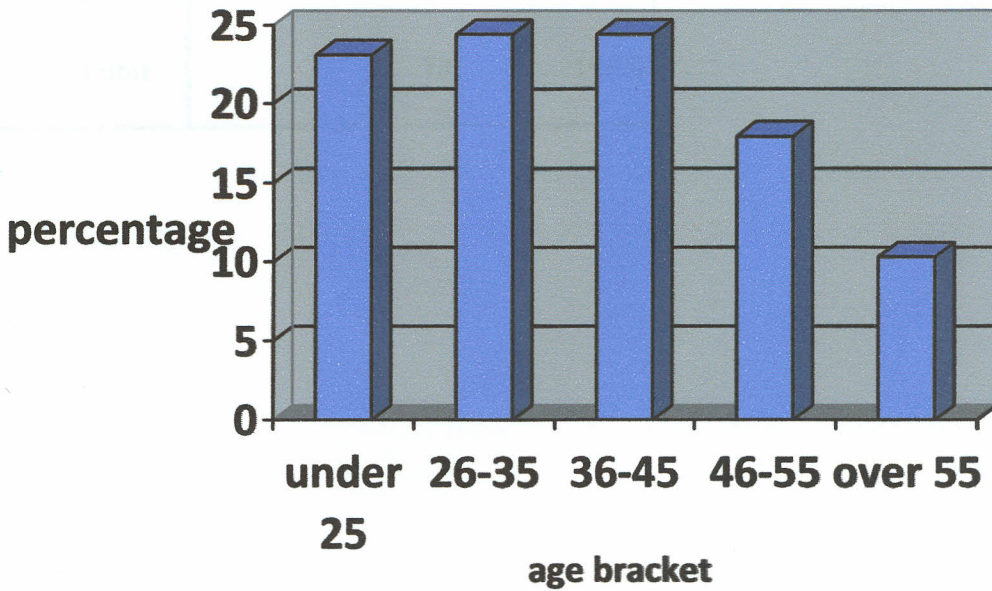
4.1.1 Age in years

Respondents were asked to state their ages in years to find out its influence on customer loyalty in the banking sector. Their responses are shown in table 4.1

Table 4.1: Age in years

Age in years	Frequency	Percent
under 25	18	23.1
36 - 35	19	24.4
36 - 45	19	24.4
46 - 55	14	17.9
over 55	8	10.3
Total	78	100.0

Figure 4.1: Age in years



Source: Research data 2013

It is clear in table 4.1 that equal proportions (24.4%) of the respondents were between 30-35 and 36-45 years respectively, whereas 23.1% (18) were under 25 years. Another 17.9% (14) were between 46-55 and the rest (8) were over 55 years. It is evident that majority of the respondents were above 36 years hence had enough experience in the banking sector and should be relevant in providing information.

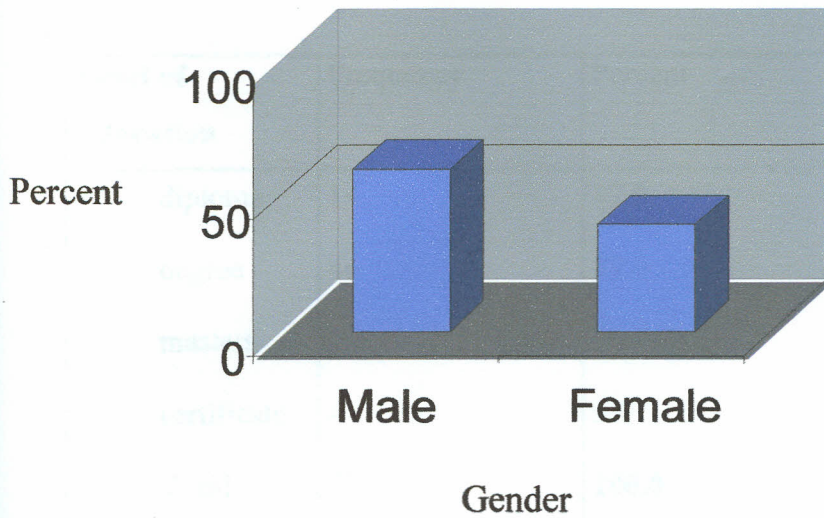
4.1.2 Gender

It was important to find out from the respondents their gender and they responded as shown in table 4.2

Table 4.2: Gender

gender	Frequency	Percent
male	47	60.3
female	31	39.7
Total	78	100.0

Figure 4.2: Gender



Source: Research data 2013

As indicated in table 4.2, majority (60.3%) of the respondents were male and the remaining (39.7%) (31) were females. There is need to avert the gender imbalance in the banking sector since a large proportion of the employees were male.

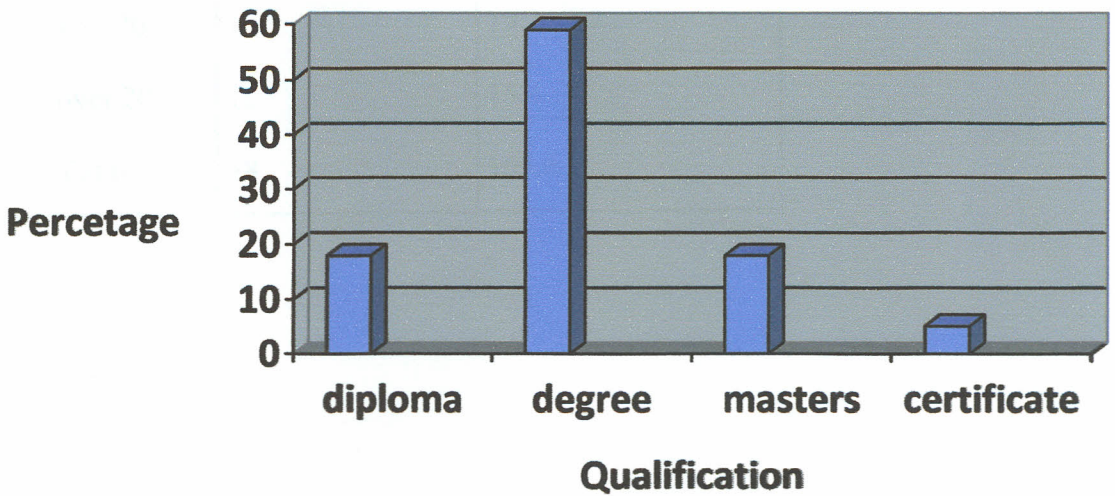
4.1.3 Level of Education

The study sought to find out from the respondents about their level of education. They responded as shown in table 4.3

Table 4.3: Level of education

Level of Education	Frequency	Percent
diploma	14	17.9
degree	46	59.0
masters	14	17.9
certificate	4	5.1
Total	78	100.0

Figure 4.3: Level of Education



Source: Research data 2013

From the responses in table 4.3, (59.0%) (46) of the respondents were degree holders, an equal proportion of (17.9%) were diploma and masters holders respectively whereas only (5.1%) were certificate holders. This shows that degree level hence had enough knowledge regarding loyalty in the banking sector.

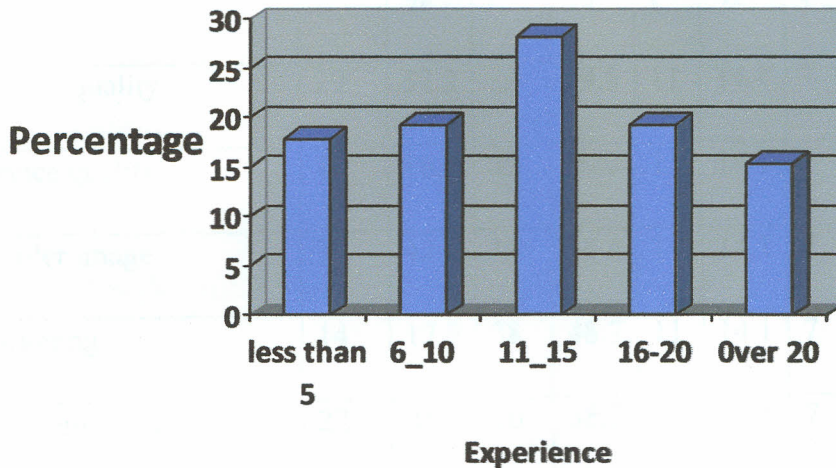
4.1.4: Working experience in years

When respondents were asked to give their working experience their responses were tabulated as shown below.

Table 4.4: Working experience in years

Working experience in years	Frequency	Percent
less than 5	14	17.9
6 - 10	15	19.2
11 - 15	22	28.2
16 - 20	15	19.2
over 20	12	15.4
Total	78	100.0

Figure 4.4: Working experience in years



Source: Research data 2013

According to table 4.4, 28.1% (22) of the respondents had experience of 11-15 years an equal proportion of 19.2% (15) stated 6-10 years and 16-20 years respectively while 17.9% (14) had experience of less than 5 years. Only 15.4.1 (12) had experience of over 20 years. Majority of the respondents had experience over 10 years hence understood well their customers in their working areas hence were important in providing relevant information for the study.

4.2 Factors influencing customer loyalty in the Banking sector

The study sought to establish from the respondents the factors influencing customer loyalty in the banking sector. Table 4.5 summarizes their responses.

Table 4.5: Factors influencing customer loyalty in the Banking sector

Theme	SA		A		N		D		SD		Total	
	f	%	f	%	f	%	f	%	f	%	f	%
Product quality	29	37.2	23	29.5	11	14.1	7	9.0	8	10.3	78	100.0
Service quality	13	16.7	39	50.0	11	14.1	1	9.0	8	10.3	78	100.0
Retailer image	33	42.3	19	24.4	11	14.1	7	9.0	8	10.3	78	100.0
Marketing	14	17.9	38	48.7	11	14.1	7	9.0	8	10.3	78	100.0
Engagement in corporate social responsibilities	22	28.2	30	38.5	11	14.1	7	9.0	8	10.3	78	100.0

Source: Research data 2013

Responses on the factors influencing customer loyalty indicates that 37.2% (29) of the respondents strongly agreed that product quality influences customer loyalty, 29.5% (23) agreed while 14.1% (11) were neutral. Further, 10.3% (8) strongly agreed while only 9.0% disagreed to it. On whether service quality influences customer loyalty, half (50%) of the respondents agreed. On the other hand when the respondents were asked whether customer loyalty influence retailer image, 42.3% of them strongly agreed, 24.1% (19) agreed whereas 14.1% (11) were neutral. Another 10.3 (8) strongly disagreed while 9.0% (7) disagreed. Consequently, 48.7% (38) of the respondents agreed that marketing influences customer loyalty, 17.9% (14) strongly agreed while 14.1% (11) were neutral. Further 10.3% (8) and 9.0% (7) strongly disagreed and disagreed respectively. When asked on whether engagement in corporate social responsibilities influences

customer loyalty, 38.55% (30) of the respondents agreed, 28.2% (22) strongly agreed while 14.1% (11) were neutral. Another 10.3% (8) strongly disagreed and only 9.0% (7) disagreed.

It can be summarized from the table that it is important for banks to ensure that they give quality products and at the same time quality service in order to attract the customers and retain them. This was attributed by several employees who agreed that when customers get good services they improve their banking amounts. It is also evident from the table that retailer image plays a vital role in influencing customer loyalty hence the need for all retailers to practice courtesy all the time. When the products and services are marketed the customers understand well the importance of that product and get the urge to embrace the product. At the same time, engagement in corporate social responsibilities improves the customer loyalty since one individual works hand in hand with other members, in order to improve the work output in the company.

4.3 Challenges of keeping a customer loyal to a bank in the banking industry

Responses were gathered from the respondents to establish the challenges they face in the banking industry and the results were summarized in table 4.6

Table 4.6: Challenges of keeping a customer loyal to a bank in the banking industry

Theme	SA		A		N		D		SD		Total	
	f	%	f	%	f	%	f	%	f	%	f	%
Stiff competition from other banks	21	26.9	31	39.7	11	14.1	7	9.0	8	10.3	78	100.0
Cost of keeping a customer loyal is high	29	37.2	23	29.5	11	14.1	7	9	8	10.3	78	100.0
Customer needs keep on changing	17	21.8	35	44.9	11	14.1	7	9.0	8	10.3	78	100.0
Customer becoming over demanding	13	16.7	39	50.0	11	14.1	7	9.0	8	10.3	78	100.0
Lack of clear customer loyalty policies	17	21.8	23	29.5	11	14.1	19	24.4	8	10.3	78	100.0
Lack of knowledge and skills necessary in maintaining customer loyalty	17	21.8	23	29.5	11	14.1	19	24.4	8	10.3	78	100.0

Source: Research data 2013

As shown in table 4.6 39.7% (31) and 26.9% (21) of the respondents agreed and strongly agreed respectively that stiff competition from other banks pose the main challenge in the banking industry. Another 14.1% (11) were neutral while 10.3% (8) strongly disagreed. The remaining (9.0%) disagreed. Further it was established that 37.2% (29) of the respondents strongly agreed that the cost of keeping the customers loyal is high, 29.5% (23) agreed while 14.1% (11) were

neutral. The remaining 10.3% (8) and 9.0% (7) strongly disagreed and disagreed respectively. Moreover 44.9% (35) of the respondents agreed that the customer needs to keep on changing, 21.8% (17) strongly agreed. However (14.1%), (10.3) and (9.0) of the respondents were neutral, strongly disagreed and disagreed respectively.

When asked whether the customer becoming over demanding is a challenge half (50.0%) of the respondents agreed (16.7%) (13) strongly agreed while 14.1% (11) were neutral. The remaining 10.3% (8) and 9.0% (7) strongly disagreed and disagreed respectively. Moreover 44.9% (35) of the respondents agreed that the customer needs to keep on changing, 21.8% (17) strongly agreed. However, (14.1%), (10.3%) and (9.0%) of the respondents were neutral strongly disagreed and disagreed respectively. Further on whether the lack of customer loyalty policies poses as a challenge, 29.5% agreed, 21.8% (17) strongly disagreed. It is also evident from the table lack of knowledge and skills necessary in maintaining customer loyalty is a challenge, 24.4% (19) disagreed, whereas 21.8% (17) strongly agreed. Moreover 14.1% (11) of the respondents were neutral and the rest (10.3%) strongly disagreed.

It can be summarized from the table that banks face to retain their customers, all banks need to come up with unique strategies to attract and retain their customers so that they are not tempted to move to other banks. At the same time there is need for the manager and other employees to budget on the costs of keeping their customers e.g. reducing their interest rates and listening to their issues. Further one needs to keep track on the needs of the customers depending on seasons e.g. end month, middle month even opening day of schools so that they do not offend their customers by not attending to their needs adequately. Other customers however are not patient enough and they keep on over demanding for the services. The employees need to understand them and educate them on the services provided by the bank. When customers are not given clear policies they tend to go against the bank policies and sometimes disagreements arise. Therefore, there is need to set up clear policies governing both the customer and the employees from the lower rank to the managerial posts. The employees sometimes also lacks the necessary knowledge in maintaining customer loyalty and this poses a great training should be provided to

the employees from the onset of the attachment so that they can clearly understand how to keep the customers loyal.

4.4 Benefits accrual from keeping the customer loyal in the banking industry.

The study sought to find out from the respondents the benefits accrued from keeping the customer loyal to a bank in the banking industry and their responses are shown in table 4.7.

Table 4.7 Benefits accrual from keeping the customer loyal in the banking industry

Theme	SA		A		N		D		SD		Total	
	f	%	f	%	f	%	f	%	f	%	f	%
Increase of the number of customers	13	16.7	35	44.9	15	19.2	7	9.0	8	10.3	78	100.0
Improved quality of services	17	21.8	35	44.9	11	14.1	7	9.0	8	10.3	78	100.0
Increased profit margins	17	21.8	35	44.9	11	14.1	7	9.0	8	10.3	78	100.0
Improved salaries for employees	21	26.9	31	39.7	11	14.1	7	9.0	8	10.3	78	100.0
Improved bank image	13	16.7	39	50.0	11	14.1	7	9.0	8	10.3	78	100.0
Makes marketing of the market easier	17	21.8	35	44.9	11	14.1	7	9.0	8	10.3	78	100.0

Source: Research data 2013

From the gathered information in table 4.7, 44.9% (35) of the respondents agreed that when one keeps customers loyal, there's prone to be increase in the number of customers 19.2% (15) were neutral while 16.7% (13) strongly agreed. Further 10.3% (8) and 9.0% (7) strongly disagreed and disagreed respectively to it. Consequently, 55.9% (35) of the respondents agreed that there is an improved quality of services when one keeps customers loyal, 21.8% (17) strongly disagree while 14.1% (35) were neutral. Another 10.3% (8) strongly disagreed while only 9.0% (7) disagreed, on whether there is an increased profit margin when customers are kept loyal. 44.9% (35) agreed 21.8% (17) strongly agreed. Further 14.1% (11) and 9.0% (7) were neutral and disagreed respectively.

When asked whether keeping customers loyal leads to improved salaries for employees 37.7% (31) of the respondents agreed, 26.9% (21) strongly agreed while 14.1% (11) were neutral. Moreover, 10.3% (8) and 9.0% (7) strongly disagreed respectively. It is also clear from the table that half (50.0%) of the respondents agreed that keeping customer loyal leads to an improved bank image, 16.7% (13) strongly agreed while 14.1% (11) were neutral. Only 10.3% (8) strongly agreed and 9.0% (7) disagreed. Consequently when asked whether keeping customers loyal makes marketing of the market easier, 44.1% (35) of the respondents agreed 21.8(17) strongly agreed while 14.1% (11) were neutral. On the other hand 10.3% (8) strongly disagreed whereas 9.0% (7) disagreed.

It can be summarized from the table that when a bank strives to keep their customers loyal, so many benefits are accrued from it. First more customers will get attracted to the banks and their money access the services of the bank then the manager's will tend to improve the services and attract more at the same time retain the available ones. By doing that, the banks will achieve high profits which will be further used to provide best quality services. It is further evident from the responses that most of the respondents agree that when customers are kept loyal all the time, then the employees also benefit since they will receive improved salaries which could make them more dedicated to their duties. When the customers, employees and employers are satisfied, harmony is prone to manifest which improves the general image of the bank. It is also clear that

CHAPTER FIVE; SUMMARY, CONCLUSIONS AND RECOMENDATIONS

5.0 Introduction

This chapter presents summary of the findings and conclusions. Recommendations from the study and suggestions for further research are also included in this chapter. The chapter is based on the findings of the preceding chapter, objectives of the study and the research questions that were to be answered by the study. The study combined two approaches to data analysis: quantitative and qualitative. This chapter is divided into four sections. The first section presents a summary of the research findings, the second part presents conclusion, and the third contains recommendations and lastly suggestions for further research.

5.1 Summary of the Findings

5.1.1 General Information on the Respondents

It is evident that majority of the respondents were above 36 years hence had enough experience in the banking sector and should be relevant in providing information however gender imbalance in the banking sector needs to be addressed since a large proportion of the employee were male. Further most of them were degree holders hence had enough knowledge regarding loyalty in the banking sector with working experience of over 10 years therefore provided relevant information.

5.1.2: Objective one: To establish the influence of quality of service on customer loyalty in the banking industry

The first objective of this study was to determine how the quality of services affects customer loyalty in the banking industry. Results obtained shows that 66.7% of the respondents agreed that product quality influences customer loyalty. Consequently half (50%) of the respondents agreed that service quality influences customer loyalty whereas 66.4% agreed that customer loyalty influence retailer image therefore it is important for banks to ensure that they give quality service in order to attract the customers and retain them. Further, 66.6% of the respondents agreed that marketing influences customer loyalty hence the need for all employees need to practice courtesy

all the time and on whether engagement in corporate social responsibilities influences customer loyalty 66.7% of the respondents agreed because it improves the customer loyalty since one individual works hand in hand with other members to improve the work output in the company. Further customers understand well the importance of that product hence buy them.

5.1.3: Objective Two: To determine the challenges of keeping a customer loyal to a bank in the banking industry

The second objective of this study was to determine the challenges of keeping a customer loyal to a bank in the banking industry. It is evident that 57.9% of the respondents agreed that stiff competition from other banks poses the main challenge in the banking industry therefore banks need to come up with new techniques to attract and retain their customers. Further, 66.7% of the respondents agreed that the cost of keeping the customers loyal is high hence managers need to budget on the costs of keeping their customers. Moreover 80.8% of the respondents agreed that the customer need to keep on changing so one needs to keep track on the needs of the customers depending on seasons and when further asked whether the customer becoming over demanding is a challenge another (66.7%) of the respondents since they keep on over demanding for the unrealistic services. The employees need to understand them and educate them on the services provided by the bank. Therefore, there is need to set up clear policies governing both the customer and the employees from the lower rank to the managerial posts.

5.1.4: Objective three: To establish the benefits that accrue from keeping the customer loyal to a bank in the banking industry

The third objective of this study was to establish the benefits that are accrued from keeping the customer loyal to a bank in the banking industry. From the results 61.6% of the respondents agreed that when one keeps customers loyal, there's prone to be increase in the number of customers since they will get attracted to the banks and deposit their money then the manager's will tend to improve the services and attract more at the same time retain the available ones as

seen by 55.9% of the respondents who agreed that there is an improved quality of services when one keeps customers loyal. On whether there is an increased profit margin when customers are kept loyal. 66.7% agreed because the banks will achieve high profits which will be further used to provide best quality services while the employees also benefit since they will receive improved salaries which could make them more dedicated to their duties. It is also evident that (66.7%) of the respondents agreed that keeping customer loyal leads to an improved bank image and 65.9% of the respondents agreed that keeping customers loyal makes marketing of the market easier since employees will market the bank hence customers will come to the bank.

5.2 Conclusions

From the findings of the study it can be concluded that quality of service plays a crucial role in influencing customer loyalty hence the need for all bank employees to practice courtesy all the time. When the products and services are marketed the customers understand well the importance of that product and get the urge to embrace the product while engagement in corporate social responsibilities improves the customer loyalty since one individual works hand in hand with other members, in order to improve the work output in the company. However, banks face challenges to retain their customers hence need to come up with unique strategies to attract and retain their customers so that they are not tempted to move to other banks. At the same time there is need for the manager and other employees to budget on the costs of keeping their customers and keep track on the needs of the customers depending on seasons. Other customers however keep on over demanding for the services therefore employees need to understand them and educate them on the services provided by the bank. The employee sometimes also lacks the necessary knowledge in maintaining customer loyalty therefore training should be provided to the employees from the onset of the attachment so that they can clearly understand how to keep the customers loyal. When the customers, employees and employers are satisfied, harmony is prone to manifest which improves the general image of the bank. It is also clear that when the image of the bank is improved, both the customers and the employees will market the bank hence customers will come to the bank.

5.3 Recommendations of the Study

- i. Positive attitudes towards customers and courteous practices should be practiced by the employees so as to improve customer loyalty.
- ii. Banks face challenges in retaining their customers hence need to come up with unique strategies to attract and retain their customers
- iii. The employees need to understand over demanding customers and educate them on the services provided by the bank.
- iv. There is need to set up clear policies governing both the customer and the employees from the lower rank to the managerial posts to avoid misunderstandings among the employees and customers.

5.4 Suggestions for Further Study

- i. A similar study should be carried out in Tourism industry for comparison purposes.
- ii. A study should be carried out to determine the effect of marketing the bank

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APPENDIX I: INTRODUCTION LETTER

ELKANA CHERUIYOT RORIO,

P.O BOX 2833,

ELDORET.

CONTACT: 0724590165

Dear Sir/Madam,

I am a post-graduate student at Kenyatta University and carrying out a research entitled: **A Factors Influencing Customer Loyalty in the Banking Sector in Mombasa Kenya**. The study is being carried out in partial fulfillment of requirements for award of master of business administration degree. I request to be allowed to collect data from your bank as regards the above mentioned research. Thank you in advance.

Yours faithfully

Elkana Cheruiyot Rorio

Reg. No: D53/MSA/PT/21860/2010.

APPENDIX II: QUESTIONNAIRE

Please put a tick (✓) in the boxes provided to indicate the most appropriate response for you in respect of the following:

1. Age in years

Under 25

26-35

36-45

46-55

Over 55

2. Gender

Male

Female

3. Level of Education

Diploma

Degree

Masters

Any other (specify).....

4. Working Experience in years

Less than 5

6 – 10

11 – 15

16 – 20

Over 20

5. In your own view, briefly explain whether it is necessary to keep a customer loyal to a bank in the banking industry

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6. The following statements relate to the factors influencing customer loyalty in the banking sector in Kenya. Using the rating given below, provide your response in relation to the extent to which you agree to the statements.

SA- Strongly Agree, A – Agree, N – Neutral, D - Disagree, SD- Strongly Disagree

Statement	SA	A	N	D	SD
Product quality					
Service quality					
Retailer image					
Marketing					
Engagement in corporate social responsibilities					

7. What other factors influence customer loyalty in the banking sector in Kenya?

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8. In what ways does the quality of service influence customer loyalty?

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9. The following statements relate to the benefits of keeping a customer loyal to a bank in the banking sector in Kenya. Using the rating given below, provide your response in relation to the extent to which you agree to the statements.

SA- Strongly Agree, A – Agree, N – Neutral, D - Disagree, SD- Strongly Disagree

Statement	SA	A	N	D	SD
Increase of the number of customers					
Improved quality of services					
Increased profit margins					
Improved Salaries for employees					
Improved bank image					
Makes marketing of the market easier					

10. What are the other benefits of keeping customer loyal to a bank in the banking sector in Kenya?

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11. The following statements relate to the challenges of maintaining customer loyalty in the banking sector in Kenya. Using the rating given below, provide your response in relation to the extent to which you agree to the statements.

SA- Strongly Agree, A – Agree, N – Neutral, D - Disagree, SD- Strongly Disagree

Statement	SA	A	N	D	SD
Stiff competition from other banks					
Cost of keeping a customer loyal is high					
Customer needs keep on changing					
Customer becoming over demanding					
Lack of clear customer loyalty policies					
Lack of knowledge and skills necessary in maintaining customer loyalty					

12. What are the other challenges of maintaining customer loyalty in the banking sector in Kenya?

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13. List and explain the various policies instituted by your bank that specifically address customer loyalty in your bank

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