DETERMINANTS OF CUSTOMER SATISFACTION AND RETENTION: A SURVEY OF THE BANKING INDUSTRY IN KENYA

By

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Promoter : Prof Helena van Zyl
Co-Promoter : Dr Margaret Cullen
DECLARATION

I, Peris Njoki Mburu hereby declare that:

The thesis for the DBA to be awarded is my own work and that it has not previously been submitted for assessment or completion of any postgraduate qualification to another University or for another qualification.

___________________________
PERIS MBURU DATE
The completion of a doctoral thesis requires concerted efforts from different participants. This sense of participation and feeling of being supported became more acute when I came to the last stage of my thesis writing. I realise that it would be invidious not to give a complete list of those participants. I would like to thank them through this acknowledgement, for their support, input, assistance and encouragement.

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<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>ANOVA</td>
<td>Analysis of Variance</td>
</tr>
<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
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<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>CLV</td>
<td>Customer Lifetime Value</td>
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<td>COSE</td>
<td>Customer Orientation of Service Employees</td>
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<td>CRM</td>
<td>Customer Relationship Management</td>
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<td>ECSI</td>
<td>European Customer Satisfaction Index</td>
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<td>EFT</td>
<td>Electronic Funds Transfer</td>
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<td>ET</td>
<td>Expectancy Theory</td>
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<td>GSI</td>
<td>Growth Strategies International</td>
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<td>Ksh</td>
<td>Kenyan shilling</td>
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<td>MFI</td>
<td>Micro Finance Institutions</td>
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<td>MOF</td>
<td>Ministry of Finance</td>
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<td>NBFIs</td>
<td>Non-bank Financial Institutions</td>
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<td>NPV</td>
<td>Net Present Value</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>PC</td>
<td>Perceived Confidentiality</td>
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<tr>
<td>SACCOS</td>
<td>Savings and Credit Co-operative Society</td>
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<tr>
<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<tr>
<td>TAM</td>
<td>Technology Acceptance Model</td>
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<td>TRA</td>
<td>Theory of Reasoned Action</td>
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<tr>
<td>TQM</td>
<td>Total Quality Management</td>
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<td>VI</td>
<td>Valence Instrumentality</td>
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<td>VIE</td>
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Customers have become the lifeblood of any organisation. Without customers, organisations would not exist let alone survive in this competitive global environment (Grigoroudis, Politis and Siskos, 2002). Banks depend on sufficient and sustaining profitability to survive in the global business world. Customers are the source of banks’ profitability. By satisfying the customer, the bank is able to retain the customer and reap maximum benefits from the relationship which ultimately leads to higher profitability. Customer satisfaction has therefore evolved as a strategic business initiative which banks cannot ignore. Retention of the bank customer has become one of the most important objectives of the overall marketing strategy of any bank.

In Kenya, the term ‘customer service’ came to the fore just over fifteen years ago when banks started acquiring customer service departments. Since then, many customer training programs for staff have been put in place to transform the image of the customer as not just a profit-maker for the banks but as a human being with needs, which if not fulfilled will cause the customer to look for alternatives in the market. Training has focused on the bank staff whose customer handling skills have been sharpened. In spite of this, no empirical study has attempted to find out if the intended satisfaction of the customer has been achieved or not, which is indicative of little or no attention being given to this important phenomenon. In Africa, with the exception of South Africa, empirical studies on customer satisfaction in the banking industry are few. This gap presented the motivation for this study.

The primary objective was to establish the determinants of customer satisfaction and retention in the Kenyan banking industry. The secondary objectives were to establish the relationship between socio-economic factors and customer satisfaction in Kenyan banks; secondly, to determine whether bank-related factors influence customer satisfaction in Kenyan banks; thirdly, to identify the various strategies known to customers and employed by Kenyan banks to ensure customer satisfaction and cus-
customer retention and finally, to analyse the relationship between customer satisfaction and customer retention in Kenyan banks.

The study adopted a descriptive survey design to suit the target population which was dispersed over a wide geographical region spanning the entire Kenya. The target population included every bank customer in Kenya. Both qualitative and quantitative data were used. The data collection instrument was a self-administered questionnaire that contained both closed and open-ended questions. Statistical tests were done using Pearson, Chi Square, Anova, Pearson Correlation and Multi-linear regression. Data were presented using frequency distribution tables, percentages, cross tabulation and pie charts. The findings indicated a positive relationship between bank-related factors and customer satisfaction and retention. The conclusion was that if banks improved on factors like quality service, staff orientation towards customers, availability of management and ATM uptimes just to name a few, proportionately, customer satisfaction and retention would be enhanced.

Finally, recommendations based on the findings were made to the Kenyan banks highlighting antecedents which would enhance the customers’ satisfaction and retention in the Kenyan banking industry.
CHAPTER ONE: INTRODUCTION AND SCOPE OF THE STUDY

1.1 Introduction

Modern banking has been influenced by globalisation. Regulatory, structural and technological factors are significantly changing the banking environment throughout the world leading to intense competitive pressures (Grigoroudis, Politis and Siskos, 2002). Banks’ competitiveness is largely seen in their ability to offer competitive products that meet customer needs in the global market. All commercial banks are faced with the challenge of retaining existing and attracting new customers.

1.2 Background to the Research

Studies have been undertaken in the recent past to highlight the effects of customer satisfaction on the performance of organisations and banks in particular. Customer satisfaction has come to be regarded as a key business strategy of every organisation and a benchmark against which many banks have set their standards. According to Wang, Lin and Su (2003); Anubav (2010) and Parvatiyar and Sheth (2000) maintaining existing customers is ever more important than the ability to capture new ones.

Customers are critical for any organisation’s success. Without customers organisations would have no resources, no profits and therefore no market niches that can enable them compete in the global arena. The focus on the customer, which has sometimes been referred to as ‘customer centricity’, has no doubt taken root in every organisation. “Customer centricity is not only about wanting to strengthen relationships with the customer but also having a customer strategy that unequivocally states that customers are the most important asset for the organisation” (The Banker, 2008).

The global business environment is constantly changing. Previously, organisations’ focus was on profits and survival. This has since changed. In order to survive in a
dynamic environment, organisations including banks need strategies to focus on their customers and to deal with the emerging trends and challenges (Pearce and Robinson, 2003; Dixon, Freeman and Toman, 2010).

Under volatile business and market conditions customer service can be the critical difference between an organisation’s success and failure. Customers are increasingly careful about purchases, the money they spend and what they want (Griffins, 2002; Duncan and Elliot, 2004). Customers expect quality service and are willing to pay for it (Zeithaml and Bitner, 2003). High satisfaction creates an emotional attachment to a brand, not just a rational preference and results in high customer loyalty (Kotler, Armstrong and Cunningham, 2002; Trubik and Smith, 2000; Pooja, 2009).

The Kenyan banking industry has undergone vast changes induced by regulatory and competitive forces. Some of the revolutionary changes witnessed include the entry of private banks, dynamic technological advancements and attitudinal transformation of the customer who has become more demanding (Mengi, 2009). This has caused the banks to become more sensitive to the needs of the customers. At government level, changes witnessed include an accelerated implementation of economic reforms by the government, the liberation of the economy and markets, discontinuation of price controls, privatisation and commercialisation of the public sector and increased competition. This has inevitably caused the Kenyan retail banks to develop strategies aimed at increasing customer satisfaction and loyalty through improved service quality. In this changing environment, organisations operating in Kenya have to constantly adapt to these changes by spearheading internal reforms to reflect the new emerging realities. According to Aosa (2002), failure to adapt to the business dynamics may put the future success of many organisations in jeopardy.

According to the Organisation for Economic Co-operation and Development (2004) banks depend on customer satisfaction and loyalty for their survival. The ability of banks to offer customers access to several markets for different classes of financial instruments has become a valuable competitive strategy. Convergence in the banking industry to cater for the changing demographic expectations of the customer has
become more evident. Customers are satisfied when their expectations are met and delighted when their expectations are exceeded (Strauss and Seidel, 2004; Rootman, 2006; Yu, 2007). Banks need to understand the needs of customers in order to satisfy them; achieve and maintain high customer satisfaction levels.

In Kenya, at independence in 1963, banks consisted of nine foreign owned commercial banks, the largest of which were Barclays Bank, Standard Chartered Bank, National Bank and Grindlays Bank (Brownbridge and Harvey, 1998). In the 1990s the government introduced a number of policy reforms aimed at a gradual liberalisation of the financial markets. As a result, the banking sector grew to 33 commercial banks and 50 non-bank financial institutions (NBFIs) by 1994. By the end of 2009, this number amounted to 46 banks with a total branch network of 500 (Central Bank of Kenya, 2009). This number currently stands at 43 due to mergers.

Overall, the banking sector in Kenya has continued to grow, expanding its asset base from Kshs 548 million in 1999 to Kshs 1.2 billion in 2008, an increase of more than 120 percent over the last ten years. Customer deposits have also grown in line with the growth in assets. In 2008, total deposits stood at Kshs 900 billion compared to Kshs 290 billion recorded in 1999. This is a growth of 130 percent (Central Bank of Kenya, 2010). By the end of 2009 the deposits rose to Kshs 1.56 trillion. As the negative effects of the 2008 global economic crisis continue to wane, the banking industry in Kenya is set to experience growth. With the increased competition, banks in Kenya have woken up to the reality for the need to provide quality customer service. Some of the measures seen have been the introduction of customer service desks, posting of customer service officers in every banking hall and an installation of suggestion boxes. Currently, no study has been undertaken to measure if these strategies have translated into more satisfied customers than before.

Customer satisfaction is a concept that needs proper consideration if a business is to survive in a competitive environment. In the banking sector, many banks have developed various strategies such as the development of products or services which appear to aim at improving customer satisfaction. However, the customers’ inputs to
effect improved customer satisfaction are not usually considered. It is critical to identify and obtain sufficient information and knowledge about customers in order to satisfy them (Bruce and Langdon, 2002; Islam and Ahmed, 2005). Customer satisfaction is a critical factor in customer retention. Porter (2004), Pooja and Rootman (2009), Tait and Bosch (2008) all agree that a satisfied customer generally stays loyal longer, talks positively about the organisation and its products, pays less attention to competing brands and is less sensitive to price and product offers and/or service ideas of other organisations. It has also been proven empirically by Reichheld and Schefter (2000) and Brown (2000) that increased customer retention leads to additional sales, lower costs, more endurable higher prices and further referrals. However, literature reviewed has also shown that it is also common for customers to be dissatisfied with the relationship they have with their service providers regardless of what they offered (Colgate and Lang, 2001; Colgate and Norris, 2001; White and Yanamandram, 2004). Satisfied customers are not necessarily loyal (Rowley and Dawes, 2000). Nonetheless, it is well established among marketing theorists that organisations which focus their activities on the needs of the customers by behaving in a customer-oriented way, perform better than those organisations that do not (Donnavan, Brown and Mowen, 2004; Coltman, 2007). Such organisations also have a good chance to outperform their competitors.

A study conducted by Allred and Adams (2000) indicated that fifty percent of the total respondents had stopped using a financial services provider because of poor service delivery. It has also been cited that repeat purchases depend on satisfying customer needs and wants (Kotler, Armstrong and Cunningham, 2002). According to Zaltman (2003) managers mostly ignore customers, because they believe that customers do not know what they want and what is technically possible when it comes to bank offerings. The factors contributing to customer satisfaction and retention in Kenya’s banking industry have not been studied in detail, leading to a widening gap between management’s perception of customer expectations and actual customer expectations (Enterprise Today, 2008). This necessitated a comprehensive study to establish the reasons behind customer satisfaction and retention in the Kenyan banking industry. The ultimate goal is to identify strategies aimed at addressing the needs of
customers with a view to ensuring their satisfaction with banking services and in return raise customer retention rates in the banking industry for better profitability.

1.3 Problem Statement

Customer satisfaction remains one of the biggest challenges for the Kenyan banking industry. The highly competitive market has caused the banking system to undergo drastic changes especially in the last two decades where the attention has turned to the customer as the key focus in every business and much more in the banking sector. However, while many business strategies appear to be aimed at improving customer satisfaction the customer is not involved in the formulation of the strategies. In addition, products are created in the banks’ boardrooms with very little input from the customers. Banks in Kenya, for instance, have been opening branches in every corner of the country without any research to show how this strategy will enhance customers’ satisfaction. According to the Banking Survey Kenya (2008), Barclays Bank, Equity Bank and Co-operative Bank are set to expand their branch networks to most of the rural areas in Kenya. Between 2008 and 2009 a total of 109 commercial bank branches were opened (The Banking Survey Kenya, 2009).

Even though the phrase ‘customer is king’ has found a home in many banks, most of the customers’ needs still remain unsatisfied while about ten million Kenyans out of a population of 40 million remain un-banked (The Banking Survey Kenya, 2008). Kenyans who are not banked cite financial costs as some of the reasons of shunning financial services (Mullei and Ngelu, 2004). Some have had bad experiences leading to dissatisfaction and abandonment of banking services altogether. This lack of satisfaction partly explains why banks are closing accounts regularly in spite of aggressive marketing campaigns aimed at opening more and more accounts. However the phenomenon of the un-banked is not peculiar to Kenya alone. Most households in developing countries do not have savings accounts with banks. Using estimates based on household surveys conducted in 20 developing countries, Claessens (2006) reported that on average only 26% of these households keep savings in formal institutions. This data also shows that most “un-banked” households save, sug-
gesting considerable use of informal savings instruments which may offer lower inte-
rest rates and less security than savings in banks. Not having a bank account
could also mean using relatively expensive ways of cashing checks and paying bills.
Further, the literature on financial access overwhelmingly finds that within a country
or a region, poorer households are significantly less likely to be banked. For exam-
ple, over 35% of low income households in the US do not have a bank account. Rel-
ative to a national mean of 50%, 73% of low income households in South Africa are
without bank accounts (Reddy, 2002). Caskey, Durn and Solo (2006) found that
90% of the urban un-banked in Mexico City and 79% of the urban un-banked in the
US have below median income.

Banks may think that they are getting a sense of customer satisfaction by tallying
customer complaints obtained from suggestion boxes. However, it is said that 95
percent of dissatisfied customers don’t complain, many just defect (Kotler, Armstrong
and Cunningham, 2002). When a customer keeps switching from one bank to anoth-
er it may be indicative that the customer is not satisfied with the bank products and
services (The Banker, 2008). The challenge facing banks in Kenya is seen in the
lack of a clear understanding of what factors influence customer satisfaction.

Importantly, most banks make decisions based on market assumptions about their
and Thomas (2001) have confirmed that dissatisfaction produces more negative
word-of-mouth than satisfaction produces positive word-of-mouth. There is, thus, a
need to find out from customers what exactly influences their satisfaction given the
wide range of banking products and services available in the market.

Customer satisfaction has many facets. Some of the observable measures are ser-
vice quality, loyalty repurchase behaviour and trust, among others. These measures
have been studied extensively. Previous studies in the developed countries such as
the studies done by Anderson and Fornell (2001) and Anderson and Mittal (2000)
have attempted to look at different dimensions of quality service and how they relate
to customer satisfaction. Almost all studies reviewed were unanimous that a satisfied customer is loyal and contributes to profitability.

Given the behaviour of the Kenyan customer as cited above, it is indicative that the Kenyan banking customer is far from satisfied. As indicated, customer satisfaction impacts on profitability which is hardly affordable in a very competitive financial services industry. Yet, no comprehensive study has been done in Kenya to establish the determinants of customer satisfaction and retention in the Kenyan banking industry. This study sought to find out the determinants of customer satisfaction in the Kenyan banking industry from the customer’s perspective. Many initiatives by banks to satisfy customers have not considered the customer’s point of view. Even though studies on customer satisfaction in other service industries may be available, studies on determinants of customer satisfaction in the Kenyan banking industry are limited. This gap is what this study sought to fill.

1.4 Research Methodology and Objectives of the Study

Literature reviewed consisted both library and internet sources. The research method adopted in the study is the descriptive study method. The data collection instrument was a questionnaire. Statistical analysis of data was carried out and findings given at the end. The Significance of the study is that the recommendations emanating from the empirical findings, if implemented, would assist the banks in improving the satisfaction of their customers and improve their retention rates.

The research objectives of the study are as follows:

1.4.1 Primary Research Objective

The primary objective of this research is to establish the determinants of customer satisfaction and retention in the Kenyan banking industry.

1.4.2 Secondary Research Objectives
The secondary research objectives of this study are to:

1. Establish the relationship between socio-economic factors and customer satisfaction in Kenyan banks;
2. Determine whether bank-related factors influence customer satisfaction in Kenyan banks;
3. Identify the various strategies known to customers and employed by Kenyan banks to ensure customer satisfaction and customer retention; and
4. Analyse the relationship between customer satisfaction and customer retention in Kenyan banks.

1.5 Research Questions and Hypotheses

The study was guided by research hypothesis which were grounded on findings from literature reviewed which attributed customer satisfaction to either bank related factors, social-economic or customer related factors

1.5.1 Research Questions

The research questions are:

1. What is the relationship between socio-economic factors and customer satisfaction and retention in Kenyan banks?
2. How do bank-related factors influence customer satisfaction and retention in Kenyan banks?
3. What strategies are known to customers and employed by Kenyan banks to ensure customer satisfaction and customer retention?
4. What is the relationship between customer satisfaction and customer retention in Kenyan banks?

1.5.2 Research Hypotheses

The following research hypotheses apply:

H$_{1.1}$: There is a correlation between socio-economic factors and customer satisfaction in Kenyan banks;
H₁.₂: There is a correlation between socio-economic factors and customer retention in Kenyan banks;
H₁.₃: There is a relationship between bank-related factors and customer satisfaction in Kenyan banks;
H₁.₄: There is a relationship between bank-related factors and customer retention in Kenyan banks; and
H₁.₅: There is a correlation between customer satisfaction and customer retention in Kenyan banks.

1.6 Clarification of Concepts

In this section, the meaning of certain important concepts and terms to be used in this research are provided. Following this, the relevance of the concepts to this study and research problems are also linked and contextualised. In relation to this study, the following descriptions and definitions apply.

1.6.1. Customer Satisfaction

Customer satisfaction is a post consumption evaluation or a pleasurable level of consumption-related fulfilment (Henning-Thurau and Thurau, 2003). Customer satisfaction entails customer needs and expectations being met all the time, every time throughout the life of a product or service (Roger and George, 2001; Gustafsson, Johnson and Ross, 2005). In the case of banks, satisfaction refers to the extent to which banking products and services meet customer needs.

Although accumulated evidence indicates that customer satisfaction influences repurchase behaviour, this explains only a quarter of the variance in behavioural intentions (Szymanski and Henard, 2001). Kristensen, Juhl and Ostergaard (2001) calculated the relationship between customer satisfaction and customer loyalty in the Danish retailing business using the European Customer Satisfaction Index (ECSI). The model links customer satisfaction to its drivers (e.g. customer expectation, perceived company’s image, perceived quality and perceived value) and in turn, to its consequences, specifically customer loyalty. Studies suggest that strong interpersonal re-
relationships positively influence customers’ intention to repurchase in the case of low customer satisfaction (Jones, Mothersbaugh and Beatty, 2000).

Commitment in a business relationship goes beyond satisfaction and commitment in a buyer-seller relationship and is a crucial predictor of retention (Wilson, Soni and O’Keeffe, 1995; Payne and Frow, 2005). It has also been cited that commitment is positively related to intentions to repurchase (Fullerton, 2005). Henning-Thurau and Walsh (2003) explored a non-significant relationship between particular treatment and satisfaction, although it is logical to expect that the benefit of particular treatment will have a huge influence on satisfaction within retail banking. This is due to the fact that special treatment provided by a financial services provider can be perceived as a part of the overall service, such that this benefit will raise customer satisfaction.

1.6.2 Customer Retention

Customer retention would refer to a host of positive behavioural intentions towards an on-going relationship between the customer and the services provider. According to literature, customer retention can be measured with scales such as intention to repurchase, cross-buying or recommending the organisation to others (Thomas, 2001; Chen and Popovich, 2003). Customer retention focuses on developing marketing strategies that cause repeat-purchasing behaviour and ignores factors that influence such behaviour (Henning-Thurau and Klee, 2001). In the case of banks, retention refers to the bank customer who actively uses a bank’s products and stays with the same bank for a considerable amount of time without switching to the competition.

There has been strong advocacy for the adoption of customer retention as one of the key performance indicators (Kaplan and Norton, 2001; Nilson and Gustafsson, 2001). For instance, a study of Reinartz and Kumar (2002) and Giese and Cote (2002) reported a high correlation between customer retention and profitability in a range of industries. However, the fragmentation of media choices and the dynamic nature of the market, coupled with an increased number of more demanding and af-
fluent consumers, brought greater challenges to marketing practitioners in retaining their customers. Customer retention and satisfaction have long been recognised as playing crucial roles for success and survival in today’s competitive market. Retention of bank customers is thus a key strategy for the banks as the longer a customer is retained, the greater the opportunity of recovering relationship cost and relationship revenue resulting in better profitability (Bank Marketing International, 2006).

1.7 Outline of the Research

Figure 1.1 portrays the sequence of themes that shaped the construct of the study, with main threads listed for each chapter of the thesis. This thesis is organised such that it begins with the outline of the study presenting the background of the study, problem statement, objectives, research questions, hypotheses, purpose and clarification of concepts. This is then followed by the theoretical basis of the study and a theoretical construct of the proposed model. The research design and data collection strategy are presented next which is followed by results and an analysis of the survey. The study concludes with the analysis, conclusions and recommendations for further research. Details contained in each chapter are shown in Figure 1.1.
Figure 1.1: Self-Constructed Study Overview and Themes for Each Chapter

Chapter One: Introduction
- Introduction and Background to the Research
- Problem Statement
- Purpose of Study
- Research Questions and Hypotheses
- Clarification of Concepts
- Outline of the Research
- Conclusion

Chapter Two: Review on Customer Satisfaction and Retention
- Introduction
- Developments in the Banking Industry
- Customer Satisfaction
- Bank Strategies to Satisfy and Retain Customers
- Customer Retention and Loyalty
- Customer/proximate Factors
- Socio-economic Factors
- Bank-related Factors
- Conceptual Framework
- Conclusion

Chapter Three: Customer Centricity
- Introduction
- Customer/Customer-Centricity Concept
- Customer-Centric Marketing
- CRM and Satisfaction
- Complaint Management and Satisfaction
- Development of TQM
- Customer Buying Decisions and Satisfaction
- Conclusion

Chapter Four: Customer Relationship Management
- Customer Relationship Management and Satisfaction
- Customer Relationship Management and Loyalty
- Customer Relationship Management in Retail Banking

Chapter Six: Key concepts emerging from the Literature Review
- Conceptual framework of the study
- Kenyan banking industry
- Customer satisfaction
- Customer Loyalty & Retention
- Customer Proximate factors
- Social Economic factors

Chapter Seven: Research Design and Data Collection
- Strategy
- Introduction
- Research Design
- Research Strategies and Population
- Data Collection Instruments
- Data Collection and Refinement
- Data Analysis Ethical Considerations
- Scope and Delimitation of the Research
- Conclusion

Theory of Chapter Five: Theoretical Constructs of Customer satisfaction and Retention
- Introduction
- Reasoned Action
- Consumer Power
- Service Quality Model
- Customer Service
- Perception Satisfaction Model

Determinants of Customer Satisfaction and Retention: A Survey of the Banking Industry in Kenya
1.8 Conclusion

This chapter presented the outline of the study with an aim of setting the context in which the research problem was conceptualised. The research assumptions as well as research scope and focus are presented. The chapter includes the purpose of the study, the delimitations and the organisation of the thesis with respect to the research paradigm such as the research hypotheses and research questions. It gives a broader picture of the entire research and also introduces the two key concepts of customer satisfaction and retention. Chapter two is a review of literature relating to customer satisfaction and retention. It also includes findings of other studies conducted worldwide in the area of customer satisfaction and retention in various countries and banks.
CHAPTER TWO: REVIEW OF CUSTOMER SATISFACTION AND RETENTION

2.1 Introduction

In this chapter a number of related concepts and discussions regarding the banking sector as well as customer satisfaction and retention are critically reviewed in order to define an analytical approach to the research questions used to structure the research problem. Key sub-sections in this chapter include the development of the banking industry, customer satisfaction, the concepts of customer retention and loyalty, customer/proximate factors, socio-economic factors, bank-related factors, conceptual framework of the proposed model and a conclusion. In doing this, the relevance of the concepts to this study and research problem is also contextualised.

2.2 Development of the Banking Industry

2.2.1 Global Perspective

Banking today can be traced back to the European middle ages when the Italian Medici Bank sought in the fourteenth century to increase its profits by establishing branches throughout Europe and extending loans to merchants, royalty and the Pope (Goldthwaite, 2005). Banking is however evidenced in ancient Greece and ancient Rome as far back as 2000 BC. Although private individuals mostly were responsible for banking during the mentioned early period, many countries established public banks either for the purpose of facilitating commerce or to serve the government (Howcroft, Hamilton and Hewer, 2002).

Before the advent of organised financial institutions in Africa, traditional credit and mutual aid schemes, as well as investment organisations existed in some form. Traditional financial intermediaries included women's associations, men's associations and associations of friends. In Kenya, the first banking institution was the Kenya Commercial Bank (KCB), which was initially known as Grindlays Bank. It opened its doors in 1906 (Mullei and Ng'elu, 2004). Since 1906 the banking industry in Kenya
has witnessed a significant growth. Although banking is old, the industry has since been revolutionised in character, content and practice. It developed from a few simple operations involving the satisfaction of a few individuals' needs to the complicated mechanisms of the modern banking system involving the satisfaction of a community.

Information technology (IT) has been the driving force behind bank innovations and has had lasting impacts on the way banks do business (Mburu, 2005). There has been large scale integration in data processing and the evolution of impressive databases, as well as the use of wider broadband data transmission which has completely transformed routine operations. Information technology has altered the world of customers and competition with its relentless and expensive march providing the life blood of commerce (Mburu, 2005). All these innovations are meant to enhance effectiveness in service delivery with the ultimate goal of enhancing customer satisfaction.

Banks have been striving to build and develop their branch networks to capture market share. Since a bank’s strong network is perceived by customers as the bank’s resources, an extensive branch network provides convenient geographic access to customers and gives customers a sufficient sense of security to entrust their money to that bank (Lockett and Littler, 1997). There is evidence that a strong branch network serves as an industry entry barrier to new entrants in the market. In the UK, networking helps to maintain the oligopolistic banking industry through which the few players can exert measurable impacts on competitors (Reichheld, 2003).

2.2.2 The Kenyan Banking Industry in Perspective

The financial system of any country consists of specialised and non-specialised structured and non-structured markets. In Kenya the financial system is organised along fairly conventional lines. By 2004, Kenya had a well developed financial system comprising of institutions as shown in Table 2.1 below. The number of commercial banks increased from 44 in 2004 to 46 in 2009.

Table 2.1: Kenya’s Financial Institutions
The Kenyan banking system has evolved over time. In the eighties many banks collapsed due to bad debts but recently many new others have entered the industry. There have also been mergers after the Central Bank of Kenya raised the minimum core capital for a banking institution. The following figure 2.1 illustrates the current number of commercial banks and mortgage finance institutions.

**Financial Institution** | 2004 | 2009
--- | --- | ---
Building Societies | 2 | 0
Capital Market Authority | 1 | 1
Central Bank of Kenya | 1 | 1
Commercial Banks | 44 | 46
Development finance institutions | 9 | 6
Forex Bureau | 91 | 129
Fund management organisations | 11 | 11
Insurance organisations | 41 | 48
Investment advisers | 18 | 19
Kenya Post Office Savings Bank | 1 | 1
Major micro finance institutions | 19 | 41
Mortgage financial institutions | 2 | 1
Nairobi Stock Exchange | 1 | 1
Non-bank financial institutions | 2 | 0
Saccos | 4474 | 5340
Stock brokers | 10 | 20
Stock dealers | 1 | 4
Venture capital organisations | 2 | 1

Source: Central Bank of Kenya, 2010
Commercial banks and mortgage finance institutions are licensed and regulated pursuant to the provisions of the Banking Act and the Regulations and Prudential Guidelines issued there under. They are the dominant players in the Kenyan banking system and closer attention is paid to them while conducting off-site and on-site surveillance to ensure that they are in compliance with the applicable laws and regulations.
Currently there are 43 licensed commercial banks and one mortgage finance company. Out of the 44 institutions, 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise three banks with significant shareholding by the Government and State Corporations, 27 commercial banks and one mortgage finance institution. The ownership structure of the commercial banks and mortgage finance company is as depicted in the Figure 2.1 above (Central Bank of Kenya, 2011).

In Kenya, which is a developing country, the financial sector is one of the major contributors to economic growth. By 2001, the financial sector contributed 10.5 percent to the Gross Domestic Product (GDP). Total assets of the banking system were at 45 percent of the GDP as at the end of 2002 and grew from Kshs 548 billion in 1999 to Kshs 1.2 trillion in 2008 (Masai and Mullei, 2004; Central Bank of Kenya, 2009).

Globally, the World Industry and Market Outlook Reports (2008) are annual publications sampling 120 major world industries and 120 minor industries in the world and ranking them. Finance and insurance within which banking is ranked, is number seven out of two hundred and forty industries. This shows that the contribution of the banking sector in the world economy cannot be underestimated (Barnes Report, 2008).

The roots of the modern financial system in Kenya are embedded in the trade connections that existed between Kenya and India at the end of the 19th century leading to the opening of the National Bank of India in 1896. Standard Bank of South Africa was established in 1910; it was known as the National Bank of South Africa in 1916 and amalgamated with the Colonial Bank and Anglo Egyptian Limited in 1926 to form Barclays Bank (DCO), the forerunner of Barclays Bank of Kenya Limited. ABN entered Kenya in 1951, the Bank of India and Bank of Baroda in 1953, Habib Bank in 1956, Ottoman Bank and the Commercial Bank of Africa followed in 1958. Kenya Commercial Bank was formed in 1971, the Co-operative Bank of Kenya and the National Bank of Kenya were formed in 1968. In 1967 when the Central Bank of Kenya
became responsible for the management of the financial system, the banking system consisted of eight foreign banks (Mullei and Ng’elu, 2004).

The Kenyan banking industry has undergone vast changes induced by regulatory and competitive forces. Since the 1980’s the Kenyan banking system has grown rapidly in terms of the number of financial institutions and the range of services offered. It has seen turbulent times, for instance in the 1980’s when 14 banking institutions were put under liquidation by the Central Bank of Kenya. In the late 1990’s more banks continued to close their branches owing to a declining economy (Mullei and Ng’elu, 2004). Since 2007, the banking industry seems to have started bouncing back. Banks that had closed branches started re-opening them (Barclays Bank of Kenya, 2010).

The banking sector has continued to undergo revolutionary changes due to liberalisation and competition. Some of the forces driving the changes recently have been deregulation, entry of more private banks, entry of Islamic banking, dynamic technological advancements and attitudinal transformation amongst the banks’ top management and the customers themselves. This has made banks more sensitive to the needs of the customer and as a result banks have focused more on customer satisfaction. Barclays Bank of Kenya has reopened branches it had closed nearly ten years ago. The small banks have continued to use customer service as a competitive tool and have managed to offer better services to their customers compared to the bigger banks which have more customers in comparison (The Kenya Banking Survey, 2009). Currently, the number of Kenyan banks stands at 44 (Central Bank of Kenya, 2011) with over 700 branches countrywide.

2.3 Customer Satisfaction

2.3.1 Defining Customer Satisfaction

Satisfaction is a person’s feeling of pleasure or disappointment resulting from comparing a product’s perceived performance or outcome in relation to the person’s ex-
pectations (Kotler, Armstrong and Cunningham, 2002). As the definition indicates, satisfaction is a function of perceived performance and expectations. If the performance of a bank falls short of these expectations, the customer becomes dissatisfied. If the performance matches expectations, the customer is satisfied. If the performance exceeds expectations, the customer is delighted. Only delighted customers or highly satisfied customers stay loyal to the service provider (Salmen and Muir, 2003; Dubrovski, 2001).

Customer satisfaction has been of key interest to researchers for the last two and a half decades. Researchers have established some of the key antecedents of customer satisfaction in retail banking with respect to customer satisfaction in the competitive world of business as well as the key antecedents to overall customer satisfaction in any other industry (Jamal, 2004). The term ‘customer satisfaction’ is a subjective, non-qualitative term. Customer satisfaction results from either the quality of banking services (product), quality of service, engagement of the customer, price factors and meeting or exceeding customers’ expectations, consuming products and services (Prabhakar, 2005).

There is a diversity of definitions for customer satisfaction. From a review of literature it is apparent that researchers have tended to use determinants of customer satisfaction to define and measure customer satisfaction. Some of the determinants used include loyalty, quality service, expectations and disconfirmation. The early researchers in the field of customer satisfaction used any of these determinants or in combination, for instance expectation and disconfirmation (Kang, Nobuyuki, and Herbert, 2004); expectation and performance (Johnson, Anderson and Fornell, 2001); quality and disconfirmation (McQuitty, Finn and Wiley, 2000); and expectation and quality (Giese and Cote, 2002) to try and define customer satisfaction.

The external environment in which the banks operate is changing constantly (Chaharbaghi, Fendt and Willis, 2003; Menon and O’Connor, 2007), while the customer is becoming more demanding in terms of expectations. Customer satisfaction has become a business concept for measuring how products and services supplied by an
organisation meet or surpass customer expectations. Some of the key areas that customers consider very important are pricing, relationships and value (Colgate and Lang, 2001).

Studies have supported the view that customer satisfaction has a direct effect on the financial performance of an organisation (Smith and Wright, 2004; Manabendra and Choudhury, 2009; Brown, 2000). Moreover, a satisfied customer has a higher propensity to stay with his/her existing services provider than the less satisfied customer (Cronin and Steven, 2000; Anubav, 2010) and is likely to recommend the services provider to customers, leading to an improved bottom line for the organisation (Reichheld, 2003; 2006; Rootman, Tait and Bosch, 2008).

This profitability can only be attained from maximising the value of customers who are satisfied and loyal. Apparently, very few banks pay much attention to the plight of their customers before, during and after sales (Anubav, 2010). Higher costs of acquiring new customers have shifted the emphasis to building and maintaining long-term customer relationships to improve profitability. Banks have moved to relationship-based approaches aimed at the recognition of the lifetime value of the customer instead of a once-off (Yu, 2007; Coltman, 2007).

Ranaweera and Prabhu (2003), Pooja, (2009), Jamal and Naser (2002) have all defined satisfaction as a post-choice evaluative judgment when referring to a specific and purposeful decision. Kang, Nobuyuki and Herbert (2004) have described it as a ‘pleasurable fulfilment’. Consumer satisfaction is acknowledged as a consumer’s subjective evaluation of the outcomes and experiences associated with consuming or using a product or service. Satisfaction occurs when consumer expectations are met or exceeded and the purchase decision is reinforced.

Satisfaction reinforces positive attitudes toward the brand, leading to a greater likelihood that the consumer will repurchase the same brand. Dissatisfaction results when consumer expectations are not met. Such disconfirmation of expectations is likely to lead to negative brand attitudes and lessens the likelihood that the consumer will buy
the same brand again. Kang, Nobuyuki and Herbert (2004), Szymanski and Henard (2001), as well as Gustafsson, Johnson and Ross (2005) were of the view that a customer is more likely satisfied with marketers’ offerings when they have a higher capability of fulfilling customers’ needs and wants. Studies by Tam (2004) in China and those of Ganesh, Arnold and Reynolds (2000) also showed that customer satisfaction had a significant influence on post purchase behaviour. As customers feel more satisfied with services, they will be more likely to repurchase and encourage others to use the products or services by word-of-mouth.

This study shall adopt the use of the term ‘customer satisfaction’ as used by Prabhakar (2007) who described satisfaction as resulting from either the quality of banking services (product), quality of service, engagement of customer, price factors and meeting or exceeding customers’ expectations, consuming products and services.

2.3.2 Impact of customer satisfaction on organisations

The organisation that will survive today is that which will not only focus on sales volume to create profits, but also on customer satisfaction implicitly creating long-term profitability (Gomez, McLaughlin, and Wittink, 2011). A satisfied customer is an asset to an organisation. Satisfied customers may tend to repurchase a service or a product and recommend others to use the organisation’s services. On the other hand, dissatisfied customers may be a threat to an organisation, because they tend to tell other consumers about their dissatisfaction (Tam, 2004). As a result, they may not use the organisation’s products or services.

However, a few studies indicated contradictory results, namely satisfied customers are not always loyal (Rowley and Dawes, 2000). Satisfied customers can still defect (Mittal and Lasser, 2002). Further empirical studies on banks show that customer satisfaction does not necessarily lead to higher profitability for the banks. A study by Yu (2007) validated repurchase intentions by satisfied customers. However, the same study also showed that there was no significant positive relationship between customer satisfaction and profitability. Further, satisfaction may have an impact on
an organisation’s revenue but also impacts on its cost thereby not affecting the profitability of the banks positively.

In a competitive marketplace where organisations compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy (Armstrong, 2001; Lamparello 2000; Peppard, 2000). Oliver (1999) conceptualised customer satisfaction as an individual’s feeling of pleasure or disappointment resulting from comparing a product’s perceived performance in relation to his or her expectations. Generally, there are two general conceptualisations of satisfaction, namely transaction-specific satisfaction and cumulative satisfaction (Jones and Suh, 2000; White and Yanamandram, 2004). Transaction-specific satisfaction refers to the evaluation of customers’ experience and reactions to a particular service encounter and cumulative satisfaction refers to the customers’ overall evaluation of the consumption experience to date (Boshoff and Gray, 2004).

Once banks understand the factors affecting customer satisfaction with the banking products, they can design their marketing strategies to cope with the increased competition in the market place with the customer in mind. The more satisfied the customers are, the greater is their retention (Ranaweera and Prabhu, 2003; Trasorras, Weinstein and Abratt, 2009). Failure to understand customers and meet their expectations is captured by Macmillan and Seldon (2008), Singh and Sirdeshmukh (2000) and Zeithaml and Bitner (2000). For the customer-centred bank, customer satisfaction should be a strategic goal and a marketing tool. Cooil, Keinigham, Aksoy and Hsu (2007), through empirical findings posited that a satisfied customer gives a larger share of his/her wallet to the business. Managers should enhance satisfaction levels of their customers which will translate into a larger share of the customer’s wallet.

Companies are interested in studying, evaluating and implementing marketing strategies that aim at improving customer retention and maximising the share of customers in view of the beneficial effects on the financial performance for the organisation.
There has been a strong advocacy for the adoption of customer retention as one of the key performance indicators of customer satisfaction (Kaplan and Norton, 2001; Sciglimpaglia and Ely, 2006).

However, the fragmentation of media choices and the dynamic nature of the market, coupled with an increased number of more demanding and affluent consumers, brought greater challenges to marketing practitioners in retaining their customers (Barnes, 2004). Quality and customer satisfaction have long been recognised as playing a crucial role for success and survival in today’s competitive market especially in service based industries like banks. Notably, the quality and satisfaction concepts have been linked to customer behavioural intentions like purchase and loyalty intention, willingness to spread positive word-of-mouth, referral and complaint intention by many researchers (Ojasalo, 2001; Jamal and Nasser, 2002; Kang, Nobuyuki and Herbert, 2004). The most commonly found studies were related to the antecedents, moderating, mediating and behavioural consequences and the relationships among the following variables: customer satisfaction, service quality, perceived value and behavioural intentions. However, there have been mixed results produced. As many industry sectors mature, competitive advantage through high quality service is an increasingly important weapon in business survival (Menon and O’Connor, 2007; Steffes, Murthi and Rao, 2008).

Studies which have been conducted worldwide to assess the satisfaction levels of the bank customer have come up with various antecedents for customer satisfaction. Gautam and Sanjay (2004) in their study on customer satisfaction in Nepalese banks concluded that the customers were most satisfied with those banks where they spent least time waiting for the services and also where the bank employee behaviour was good. Kaynak and Harcar (2004) examined customer satisfaction in the Pennsylvanian (USA) commercial banks. The findings showed that customers’ attitudes were most positive in banks where staff had positive attitudes, were professional and offered timely responses to correspondence and queries. The customers satisfaction was also enhanced by the confidentially of the bank, the promptness of the bank in correcting errors and accurate billing.
Arasli et al. (2005) compared overall customer satisfaction of the customers in Turkish and Greek banks. The studies revealed that the bank customers’ expectations had not been met. Bank assurance had the largest influence on customer satisfaction in both areas and resulted in positive word of mouth about the bank. Ndubisi and Wah (2005) evaluated customer satisfaction in Malaysian banks. Results indicated that strong customer-bank relationships depend on the banks’ competence, commitment, communication, conflict handling skills and trust. Banks exhibiting the five qualities had quality relationships with their customers while those lacking in those dimensions created poor quality relationships with customers. Koutouvalas and Siomkos (2006) studied customer satisfaction in Greek banks. They looked at factors that shaped bank customers’ perception of service quality and its influence on their loyalty and switching intentions in both the public and private banks. The studies showed a positive relationship between customers’ perception of service quality and loyalty. Bank customers were also satisfied with banks where they were able to express their complaints to the banks easily. Roig et al. (2006) examined concepts that shaped customer perceived value in the banking industry. The results revealed six dimensions crucial to shaping the customer perceived value with banking services. These were functional value of the establishment, functional value of the establishment, functional value of the bank staff (personnel), functional value of the service, functional value of the price, emotional value and social value.

Molina et al. (2007) investigated customer satisfaction in Spain. Trust and exemplary customer service emerged as the key factors contributing to good long-term relationship between the bank and the customers. Manraj and Manraj (2007) investigated dimensions of customer service that influenced customer satisfaction in the American banks. The study identified the following dimensions of customer service having the greatest influence on customer satisfaction: Personnel related considerations, financial considerations, (interest earning and interest payments), environmental related considerations (atmospherics) and convenience related considerations (ATM presence and opening hours).
Ahmad, Bashir and Humayoun (2010) examined the impact of customer satisfaction on performance of conventional banks in Pakistan. The findings established a relationship between customer satisfaction and bank performance. Studies recommended that banks improve their products and introduce new, diversified and marketable products to meet the requirements of various market segments.

A study by Ghazizadeh, Besheli and Talebi (2010) in state owned banks in Tehran found that customer satisfaction and demographic factors like age and level of education had influenced customers’ propensity to stay with their current banks. Lastly, a study in Iranian state owned banks by Ghazizadeh, Besheli and Talebi (2010) revealed that bank service operation such as assurance, responsiveness and empathy, bank employees friendliness, care, helpfulness and courtesy were important in explaining customer satisfaction.

Some of the key factors influencing customer satisfaction from the above studies include, short waiting time to access banking services, professional bank staff, ability of customers to trust their banks and the ability of customers to complain easily and get queries resolved quickly.

2.3.3 Current Measurements of Customer Satisfaction

Measurements of customer satisfaction and retention enables the identification of actions an organisation needs to take to improve its capabilities to provide services (Bowen and Chen, 2001). For the last 20 years, a key theme in cross-cultural customer behaviour research has been the explanation and measurement of customer or consumer satisfaction. The hypothesis that satisfaction affects post purchase behaviour (word-of-mouth and advocacy among others) and future purchase behaviour (repeat purchase) is intuitively strong and empirically supported by studies suggesting a link between satisfaction, loyalty and profitability (Fornell and Wernerfelt, 2007; Anderson, Fornell and Lehmann, 2004).
The extensive body of literature on customer satisfaction generally agrees that expectation followed by perceived performance (the expectancy disconfirmation paradigm), is the direct determinant of satisfaction (Yu, 2005). This is the dominant model referred to in most research done on satisfaction. Early research in this field, however, especially in the goods sector, focused on product attributes and overlooked attributes of the purchase process. In the services marketing area this issue has been addressed to a certain extent as a result of the indivisibility of the process and the product (Rootman, Tait and Bosch, 2008). The obvious implication is that satisfaction goes beyond simple satisfaction with the product or purchase outcome; the channel experience also has an impact on overall satisfaction. In addition, some researchers suggest that the cumulative purchase experience over time must be considered to measure satisfaction. This cumulative experience involves other factors (channel, process) which affect customers’ expectations and evaluations of whether or not they were satisfied (Beaven and Scotti, 2000; Rootman, Tait and Bosch, 2008).

Customers are unique and their definition of quality service varies. Customers perceive satisfaction differently. Some of the techniques to measure satisfaction have been highlighted by Kotler and Keller (2006) as:

1. Periodic surveys tracking customer satisfaction directly. Respondents can be asked about their repurchase intentions;
2. The customer loss rate indicating that customers who have stopped buying should be contacted and their feedback would be useful in designing winning back strategies;
3. Mystery shoppers posted to banking halls to pose as customers and report back on strong and weak points experienced. Mystery calls can also be made to the bank to ascertain how customers are handled; and
4. Suggestion boxes which are common in almost all banking halls though some studies have shown that dissatisfied customers don’t always complain, therefore limiting their effectiveness.
The mid 1990s saw an emergence of more sophisticated models to measure customer satisfaction. Examples are the model proposed by Shugan and Xie (2000), Hazard models by Bolton (1998) and the Bayesian models by Rust and Chung (2006) which are used to study customer satisfaction and retention. All these models and approaches proposed in marketing evolved into the Customer Relationship Management models used today like the attrition, retention, attrition and cross selling models to name a few (Butt and Wansbeek, 2005). Surveys and experimental approaches have been extensively used for models of customer satisfaction and relationships for the reason that one needs to ask customers for their perceptions because those drive satisfaction and retention. Database and panel approaches have been primarily used to map the relationships between managerial actions and customer behaviour and its financial impact as typified by CRM research today (Rust and Chung, 2006).

2.3.4 Customer Retention and Loyalty

2.3.5 Customer Retention

Customer retention has become critical for many organisations' financial performance and survival (Smith and Wright, 2004). Various reasons have been put forward as explanations for customers' unpredictable behaviour. Research by Anubav (2010), Kent and Löfmarck (2000) and Reichheld (2006) focused on customer retention and suggests that it leads to reduced sales and marketing costs, increased long-term profitability, an increase in the opportunities for cross-selling of products and services, as well as positive word-of-mouth by customers.

Reichheld (2003) outlines the benefits of retention as follows: Firstly, through retention, an organisation is able to avoid acquisition costs for new customers. Secondly, revenues from a customer grow with tenure, meaning that the longer a customer stays with the bank, the more business the bank is able to do with the customer and the more profitable he/she becomes. Thirdly, established customers become more familiar with a service provider’s practices requiring less employee attention. They become easier to manage and the organisation saves costs in the process. Fourthly,
long-term customers are a good and reliable source of referrals for new customers. Fifthly, long-term customers are loyal and generally more tolerant of higher prices. Lastly, long-term customers are more unlikely to defect in future than more recent customers hence delivering more revenues to the organisation.

Coldwell (2001) under the auspices of Growth Strategies International (GSI) performed a statistical analysis of Customer Satisfaction data encompassing the findings of over 20,000 customer surveys conducted in 40 countries by InfoQuest. The conclusion of the study was:
• A totally satisfied customer contributes 2.6 times as much revenue to a company as a somewhat satisfied customer;
• A totally satisfied customer contributes 17 times as much revenue as a somewhat dissatisfied customer; and
• A totally dissatisfied customer decreases revenue at a rate equal to 1.8 times what a totally satisfied customer contributes to a business.

Retention models categorise customers into two classes, namely the ‘lost for good’ customer and ‘always a share’ customer. The latter denotes a customer who can still be rehabilitated through attractive offerings and retention programs. Researchers such as Thomas, Blattberg and Fox (2004) have argued that customers should be treated as a renewable resource.

Organisations spend money to gain new customers in growing markets, but if they do not retain these customers, they will experience higher marketing expenses and lower marketing profits (Cooil, Keiningham and Hsu, 2007). The cost of acquiring a new customer is five to ten times higher than the cost of retaining a new customer. Furthermore, a two percent increase in loyal customers has been shown to lower marketing costs by ten percent. A strategy to increase customer retention and loyalty will have an immediate impact on organisations’ profit (Roger, 2005; Lin and Su, 2003).
Customer retention has been conceptualised as a dimension of the customer loyalty construct (Grönholdt, Martensen and Kristensen, 2000). The terms customer retention and customer loyalty are often used interchangeably in business literature. However, customer retention and customer loyalty are not surrogates for each other because the two terms can be used separately. According to Henning-Thurau and Klee (2001) the conceptualisation of customer retention needs further clarification. ‘Brand loyalty’ contains attitudinal aspects whereas customer loyalty contains both attitudinal and behavioural aspects.

Customer retention only focuses on developing marketing strategies causing repeat-purchasing behaviour and ignores factors influencing such behaviour (Henning-Thurau and Klee, 2001). As mentioned earlier, it is cheaper for a business to retain an existing customer due to the exorbitant costs associated with recruiting a new customer. Empirically, Reichheld and Schefter (2000) and Swartz and Lacobucci (2000) demonstrated that increased customer retention leads to additional sales, lower costs, price acceptance and no cost on word-of-mouth recommendations.

Researchers such as Palmatier et al. (2006), Pfeifer, Haskins and Conroy (2005) and Trasorras, Wenstein and Abratt (2009) found a significant relationship between service and retention, as well as that retention can be measured based on customer profitability. This would imply that service plays an important role in considering repurchase intent with a service provider. Organisations and financial institutions, especially banks must endeavour to provide superior service to their customers (Griffins, 2002). Customers require quality service not only during pre-sales but also post-sales. Lack of attention to customer needs causes them to drift away, thus losing them and potentially losing any referral business in the process (Sheth, Sisodia and Sharma, 2004). Banks must realise that customers will not settle for inferior service quality as they have become more educated and more discerning. The quality of service received has a strong bearing on customer satisfaction and hence retention. Fecikova (2004) asserts that a key factor for organisational survival is the retention of satisfied internal and external customers.
According to Palmatier et al. (2006) and Payton and Zahay (2003) some organisations are systematic about separating the profitable customers from the unprofitable ones. They use analytical tools and other relevant matrices to complete customer lifetime value scores which enable them to retain profitable customers and disengage unprofitable customers. Organisations that choose to disengage from unprofitable customers may lose valuable sources of information, experimentation and innovation. End users’ ideas and suggestions can help organisations quickly identify new products and services and develop best practices (Rust and Chung, 2006).

Customers released by one organisation can usually be accommodated by a rival organisation, thereby tilting the share of market dynamics. A customer base, even if unprofitable is not a resource any business can afford to squander (Mittal, Sarkees and Murshed, 2008). A critical aspect of fostering profitable relationships with customers is managing their expectations (Reichheld and Schefter, 2000). East, Hammond and Gendall (2006) however, have downplayed customer retention arguing that retention is costly and associated costs may not be commensurate with earnings from the customer. Their view is a counter view that retention affects profits negatively and instead organisations should intensify acquisitions instead of spending money on retention programs. Smith and Higgins (2000) have also warned that relationships can deteriorate over time and further say that it is only in some cases that customer retention appears to be a worthwhile strategy.

Financial gains from customer acquisitions can be much larger than gains through defections. The study by Smith and Higgins (2000) found a weak link between satisfaction and retention. Reinartz and Kumar (2002) also dispute the view that long-term customers are more tolerant of prices. East, Hammond and Gendall (2006) also argue that in some cases, long-term customers recommend significantly less customers compared to short-term customers. In spite of this, it is a well agreed fact amongst all scholars that a satisfied customer is a profitable customer who is not easy to switch to other service providers (Reichheld, 2003; Rootman, Tait and Bosch, 2008). In a hyper-competitive market all commercial banks are faced with challenges of retaining existing and attracting new customers.
The maintenance of a bank’s existing customer base is even more important than the ability to capture new clients. One of the reasons is that the cost of attracting a new customer is much higher than the cost of keeping an existing one (Reinartz and Kumar, 2003). Thus, customer satisfaction and loyalty are essential to a bank’s success. Customer loyalty is a major contributor to sustainable profit growth (Sirdeshmukh, Singh and Sabol, 2002). If an organisation is not able to keep customers and build long-term relationships it will continue to operate with discrete once-off transactions.

Discussions of customer retention seem to be dominated by loyalty programmes and customer discounts. However research such as one undertaken by Ba and Pavlou (2002) shows that what really drives repurchase is high-quality customer service and well-managed, strategically delivered formal and informal. Customers do not remain with an organisation just because of the discounts offered or the loyalty programmes that are available. The service provided must also meet the expectations of the customer. An organisation building customer retention should enable customers to receive what they want, when they want it (just-in-time) and a perfect delivery each and every time with the desired levels of service that appeal to the consumer (Woodruff, Cadotte and Jenkins, 1983). A desired outcome of providing quality in all transactions is customer retention. While there is no guarantee of a satisfied customer’s repeat visit, it is nearly certain that a dissatisfied customer will not return. Bank managers must therefore understand customer perceptions and expectations of quality. Research has indicated that assessments of quality and satisfaction are critical in the process by which a consumer develops a positive attitude towards a particular experience, makes a repeat purchase and develops brand loyalty (Wong, 2004).

The importance of loyal customers and their impact on business profitability is undisputed, but it is more difficult to build customer retention than it may appear. Various strategies including loyalty schemes and discount cards are sometimes used in an effort to retain customers. Enhancing relationships with customers means treating them fairly, enhancing the core service by adding extra value and, perhaps most im-
important, providing a highly customised service for each individual (Van der Merwe, 2004; Rust and Zahorick, 2003).

According to Wolfinbarger and Gilly (2003), customer retention has a direct impact on profitability. Naturally then, considerable time and money is spent in many organisations to develop strategies to retain customers. On average it costs a company five to six times as much to attract a new customer as it does to implement retention strategies to hold an existing one (Sultan and Henrichs, 2004). The costs of attracting new customers include advertising and promotion, but loyal customers also act as word-of-mouth advertisers and will generally spend more. Paying too much attention to these so-called "wrong" customers may jeopardise a company's survival and profitability. Szymanski and Trawick (2001) defined right customers as "customers who will provide steady cash flows and a profitable return on the firm's investment for years to come, customers whose loyalty can be won and kept". ‘Right' customers are inherently predictable and loyal, preferring a stable and long-term relationship. Right customers are also more profitable than others (Roger, 2005; Roman, 2003). In other words, they spend more money, pay their bills more promptly, and require less service. They also find the products and services more valuable than those of its competitors. Woodruff, Cadotte and Jenkins (2003), and Payne and Frow (2005) observed that ‘right' customers, or a target group, are “those whom the company should be able to serve well and profitably and the wrong customers are those whose needs cannot be profitably served." However, there is evidence to suggest that right customers may not remain loyal, not because of their dissatisfaction, but because of a higher performing, more innovative and competitive offer in the marketplace (Patterson and Smith, 2003). Therefore, companies should carefully categorise their right customers into those more likely to switch and those less likely and formulate appropriate strategies to retain them.

Stewart (2009) defined a wrong customer as "a customer who complains frequently or is never satisfied with recovery efforts". Sultan and Morraj (2001) go a step further by describing wrong customers as those whose service needs cannot be easily met by the company. Right customers have to be retained, "at-risk" right customers have
to be recovered and wrong customers have to be divested. The service-profit chain clearly shows that customer satisfaction with service quality and value leads to customer loyalty and profitability (Liu, 2007). Therefore, decisions to retain right customers and to divest wrong customers should start by examining customer satisfaction.

In the past decade, customer retention strategy was downplayed because marketing practitioners focused primarily on attracting new customers (Szymanski and Trawick, 2001). Anderson and Mittal (2000) stated that companies that keep acquiring new customers but are unable to retain them are unlikely to see positive bottom line results. By retaining current customers through higher levels of satisfaction, Anderson, Fornell and Lehmann (2004) found that the “satisfied” and delighted groups had a probability of returning of 95 and 97 percent, respectively, whereas the “dissatisfied” group had only a 45 percent probability of returning.

Although customer satisfaction plays a significant role in customer retention, the reality is that not every customer can be satisfied and worst of all, not every satisfied customer can be retained. In most cases, it is not profitable to retain every customer, since the cost of offering better services/products soars (Anderson and Mittal, 2001; Auh, 2005). Some customers are “right” customers and some are “wrong” customers. Choosing the right customer segment is important in customer retention (Roy, 2008; Szmigzin, 2003).

It is a fact that the latest target of cost cutting in business is wrong customers, who cost more to handle than they are worth (Anderson, 2008). Athanassopoulos (2001) also suggests that business organisations need to monitor their customer portfolios regularly and need to consider terminating unsuccessful relationships. Armstrong and Overton (2007) also point to the fact that many companies focus their financial reward systems on sales staff because they are responsible for attracting new customers, rather than providing extra financial rewards to staff that retain customers. According to Anderson (2008) both types of staff are doing a “selling” job. If the reward system is linked to the retention objective, customer service staffs are motivated to solve customers’ problems and to build up a long-term relationship with them.
In addition, retaining by rewarding right customers should be synchronised with customer-based expansion.

With the economic environment still challenging in many local banking markets, it is more critical than ever that institutions maintain strong relationships with their customers. In particular, financial institutions (banks) have realised the strategic importance of customer value and seem to be continuously seeking innovative ways to enhance customer relationships (Cogley and Sargent, 2008). In fact, as the offers of many financial services are similar and slightly differentiable, loyal customers have great value, since they are likely to spend and buy more, spread positive word-of-mouth, resist competitors’ offers, wait for a product to become available and recommend the service provider to other potential customers (Reynolds, 2002; Smith and Colgate, 2007).

Globalised competition has stressed the strategic importance of satisfaction, quality and consequently loyalty in the battle for winning consumer preferences and maintaining sustainable competitive advantage (Smith and Wright, 2004). In the service economy especially, these prove to be key factors reciprocally interrelated in a causal, cyclical relationship. The higher the (perceived) service quality, the more satisfied and loyal the customers are (Ba, Whinston and Zhang, 2002). The customer satisfaction-retention link has received more attention among marketing and management practitioners and academics.

Customer satisfaction has long been regarded as a “proxy” for banks’ success since it is inextricably linked to customer loyalty and retention. Berger, Kashyap and Scallise (2005) highlighted that the link between customer satisfaction and customer retention is reliant, to some extent, upon other factors such as the level of competition, switching barriers, proprietary technology and the features of individual customers. The relationship between these two key constructs is considered to be far more complex than it might first seem (Bhatty, Skinkle and Spalding, 2001).

Satisfaction has a significant impact on customer loyalty (Day, 2003) and as a direct antecedent, leads to commitment in business relationships (Anderson, Fornell and
Lehmann, 2004), thus greatly influencing customer repurchase intention (Brislin, 2006). The impact of satisfaction on commitment and retention varies in relation to the industry, product or service and environment. However, customer commitment cannot be dependent only on satisfaction (Boulding, Kalbra, Staeling and Zeithaml, 2003).

Relational switching costs, which consist in personal relationship loss and brand relationship costs and involve psychological or emotional discomfort due to loss of identity and breaking of bonds (Dick and Basu, 1994) have a moderating effect on the satisfaction-commitment link (Delgado-Ballester and Munuera-Alemán, 2002). Since relational switching costs represent a barrier to exit from the relationship, they can be expected to increase the relationship commitment. High switching barriers may mean that customers have to stay (or perceive that they have to) with service providers who do not care for the satisfaction created in the relationship. On the other hand, customer satisfaction is usually the key element in securing repeat patronage; this outcome may be dependent on switching barriers in the context of service provision (Chen, 2004; Singh, 2006).

Customer retention is an important element of banking strategy in today’s increasingly competitive environment. Bank management must identify and improve upon factors that can limit customer defection. These include employee performance and professionalism, willingness to solve problems, friendliness, level of knowledge, communication skills and selling skills, among others. Furthermore, customer defection can also be reduced through adjustments in a bank’s rates, policies and branch locations (Roy, 2008; Li, 2010).

Several studies have emphasised the significance of customer retention in the banking industry (De Ruyter, Moorman and Lemmink, 2001; Al-Alawi and Adel, 2005). Literature on retention in banks has tended to focus on the impact of individual constructs, without attempting to link them in a model to further explore or explain retention. If retention criteria are not well managed, customers might still leave their banks, no matter how hard bankers try to retain those (Griffins, 2002).
The banking industry is highly competitive, with banks not only competing amongst each other; but also with non-banks and other financial institutions (Bhaskar, 2004). Most bank product developments are easy to duplicate and when banks provide nearly identical services, they can only distinguish themselves on the basis of price and service quality. Therefore, customer retention is potentially an effective tool that banks can use to gain a strategic advantage and survive in today’s ever-increasing competitive environment.

2.3.6 Customer Loyalty

Customer loyalty denotes the customer’s intention to keep doing business with the organisation. The relationship between satisfaction and loyalty has been extensively studied in various services and it is generally agreed that satisfaction leads to repeat purchases and positive word-of-mouth which are main indicators of loyalty; although customer satisfaction has been regarded as the major driver of loyalty, it is not the only condition for loyal customers (Hogan, Lemon and Libai, 2003).

Customer loyalty is a complex construct because it can be conceptualised from behavioural, attitudinal and cognitive perspectives (Dimitriades, 2006). Customers demonstrate their loyalty in various ways and there is no consensus regarding the definition of ‘loyalty’. Conceptualisation of loyalty includes firstly, a behavioural component which considers loyalty purely in terms of revealed behaviour, for example repeat behaviour, proportion of purchases, sequence of purchases and share of market (Rowly and Dawes, 2000). Secondly, an attitudinal component considers loyalty in terms of whether people prefer a brand, feel committed to it, recommend it to others and have a positive belief and feelings about it relative to competing brands. Thirdly, combined behavioural and attitudinal components consider conceive loyalty in terms of both attitudinal and behavioural dimensions. Here the customers will have repeat purchases and a higher share of wallet and also feel very committed to the brand (White and Yanamandran, 2004). Behaviourally, consumers can be defined as loyal if they continue to buy the same product over some period of time. Kenny, Kashy and Bolger (1998) however, took exception to this simple definition and were
the first researchers to view loyalty psychologically rather than behaviourally. They recognised that behavioural loyalty could be spurious because it could be based on convenience and switching costs, or misleading if consumers were multi-brand loyal.

In a representative definition that combines both the behavioural and attitudinal perspectives, Kang, Nobuyuki and Herbert (2004) defined loyalty comprehensively as a deeply held commitment to re-buy or re-patronise 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 behaviour.

Consumer loyalty is indicated by an intention to perform a diverse set of behaviours that signal a motivation to maintain a relationship with the focal firm, including allocating a higher share of the category wallet to the specific service provider, engaging in positive word of mouth and repeat purchasing (Barnes, 2004). Loyalty has been measured behaviourally as repeat purchase frequency or relative volume of purchasing and measured attitudinally as repurchase intentions (Reynolds and Arnold, 2000). It has also been viewed as the likelihood of switching and buying more (Selles and Gonhaung, 2000).

Banks should therefore strive to identify what fosters loyalty in their businesses and explore these factors. Loyalty in turn generates retention which translates into higher profits for the organisation. Four components of value include service, quality, image and price; each directly relates to retention though price had the least consideration (Barnes, 2004). One way to motivate customers to take on a longer term decision-making approach to their choice of products is through the use of loyalty programs. Lewis (2004) showed that loyalty programs are successful in increasing purchases of customers.

Despite the existence of a large body of literature on relationship marketing, exactly how and why customers act the way they do is not well understood (Dubrovski, 2001). In the services industry, there is a need to understand how customers switch
or resist switching to another service provider yet empirical studies that examine the role of relational constructs are still lacking (N’Goala, 2007). Loyalty is often interpreted as actual retention and it is thus important to understand which factors drive retention (Dabholkar, 2000; Jones and Suh, 2000).

The relationship marketing literature concurs that commitment is an important driver of customer loyalty (Gustafsson et al., 2005). Thus many studies have examined the antecedents of commitment in a marketing context e.g. trust (Ranaweera and Prabhu, 2003), customer satisfaction (Prabhakar, 2005), service quality (Manabendra and Choudhury, 2009; Gounaris, 2005).

There are different approaches that allow distinguishing customers in terms of whether they are behaviourally or emotionally loyal. Behaviourally loyal customers act loyally but have no emotional bond with the brand or the supplier whereas emotionally loyal customers do. Jones and Suh (2000) call these two kinds of loyalty accordingly false or true long-term loyalty (N’Goala, 2007). Hofmeyr and Rice (2000) divide customers to loyal (behavioural) or committed (emotional). Emotional loyalty is much stronger and longer lasting than behavioural loyalty. It is an enduring desire to maintain a valued relationship.

The relationship is so important for the customer that he/she makes maximum efforts to maintain it (Kim, Han and Park, 2001; Reichheld 2003). Highly bonded customers will buy repeatedly from a provider to which they are bonded, recommends that provider to others and strongly defend these choices to others - insisting that they have chosen the “best” product or service (Murray and Häubl, 2007). Behaviourally loyal customers could be divided in to sub-segments by the reason of acting as follows: forced to be loyal, loyal due to inertia or functionally loyal.

Customers are forced to be loyal when they have to be clients even if they do not want to. Customers may be forced to consume certain products or products/services offered by certain vendors e.g. when the company acts as a monopoly or the poor financial status of the customer is limiting his selection of goods. Grönholdt, Marten-
sen and Kristensen (2000) have found that companies with a low price strategy had a much higher loyalty than expected from their customers. On the other hand, companies that had used energy on branding indeed had a high customer satisfaction, but they did not have a correspondingly high loyalty (Grönholdt et al., 2000) forced loyalty could be established through creating exit barriers as well.

Loyal behaviour may also result from inertia - the customer does not move to another vendor due to comfort or relatively low importance of operation - if the choice has low importance, there is no point to spend time and effort on searching for alternatives. Thus, based on his/her faith in the suitability of the current product, the customer continues to use it without checking alternatives, which is in accordance with Kang, Nobuyuki and Herbert’s (2004) approach of cognitive loyalty: the loyalty that is based on brand belief only. “Cognition can be based on prior or vicarious knowledge or on recent experience-based information. If the transaction is routine, so that satisfaction is not processed (e.g. trash pickup, utility provision), the depth of loyalty is no deeper than mere performance” (Kang, Nobuyuki and Herbert, 2004). Hofmeyr and Rice (2000) also concur and add that one of the reasons that customers don’t switch brands when they are dissatisfied is that they feel that the alternatives are just as bad as the brand they are using or even worse. Inertia may be caused also by lack of information about attractive characteristics of the brands (Yaroung, Cheing and Li, 2006).

Functionally loyal customers are loyal because they have an objective reason to be. Yaroung, Cheing and Li (2006) have argued that “cost-based brand loyalty” are where brand utilities have a positive influence on brand choice Functional loyalty can be created by functional values using price, quality, distribution, usage convenience of a product or through different loyalty programs (points, coupons, games, draws etc.) giving a concrete reason to prefer a certain service provider. Unfortunately competitors can most easily copy functional values. Thus, creating functional value offers a fleeting competitive advantage: functional loyalty cannot be very long lasting. Barnes (2004) and Jones and Farquhar (2003) propose three measures of loyalty that could be used in segmentation by loyalty: Customers’ primary behaviour -
recency, frequency and amount of purchase; customers’ secondary behaviour - customer referrals, endorsements and spreading the word; customers’ intent to repurchase – the readiness of the customer to repurchase in the future.

A study conducted in America by Colgate and Lang (2001) showed that improving bank customer satisfaction and loyalty makes a difference by increasing levels of customer satisfaction and loyalty and are frequently linked to positive outcomes for an organisation. For example, Anderson and Fornell (2001) when investigating more than 25,000 customers of 77 Swedish organisations in a variety of industries noted that the organisations with higher reported satisfaction levels also showed significantly higher returns. It is indicated that an annual one percent increase in customer satisfaction is worth an 11.4 percent improvement in current return on investment. Reichheld and Sasser (2001) argued that customer loyalty may reduce the cost of future interactions. Increasing customer loyalty helps to create future revenues and decrease price elasticity.

Most African banks have challenges to retain customers in an industry where little differentiation and extensive competition exist, as the retention of customers is the key for growth (Mikdashi, 2001). The priority is to reduce the administration overheads as opposed to striving to meet customer expectations and to create one-on-one customer intimacy and to implement technologically advanced systems. Additionally, the relationship between a bank and its customers is very important to both parties, as the bank is entrusted with a scarce resource of the customer, which must be managed in the customer’s best interest to ensure support for the bank (Jones, Taylor, Becherer and Halstead, 2003).

According to Keaveney (2005) customers who believe they have obtained value from a product or service develop loyalty. Loyalty in turn creates retention which may translate to higher profits and bigger market share. In order to retain customers it is important to know why they defect to the competition (La and Kandampully, 2004; Lam, Shankar, Erramilli and Murthy, 2004). Not only does the organisation lose their
future profit potential but negative experiences are shared which may spur further defections (Keaveney, 2005).

No single factor can consistently be identified as a reason for switches between organisations. Keaveney (2005) identified the following factors, namely pricing, inconvenience, core services failure, service encounter failures, employee responses to failures and ethical issues, amongst others.

Dalton (2003) cites three factors as critical in driving customer loyalty including value, trust and going the extra mile. He stated that customers are loyal to people who help them solve problems and expand beyond what is expected. Jones and Farquhar (2003) argue that customers are better retained in an organisation with a customer-oriented climate where staff can deliver service quality efficiently and effectively. Image has also been proposed as a prerequisite for loyalty where image represents a sum of a person’s beliefs, ideas and impressions about the product, service or an organisation (Giese and Cote, 2002). The generation of customer loyalty delivers high customer value. According to Lanning (2003) an organisation must develop a competitively superior value proposition and a superior value delivery system.

Darsono and Junaedi (2006) defined three approaches to loyalty: behavioural measurement, attitudinal measurement and composite measurement. Behavioural measurement considers consistent repetitious purchase behaviour as an indicator of loyalty though repeat purchases may not necessarily denote commitment. Attitudinal measurement uses attitudinal data to reflect the emotional and psychological attachment inherent in loyalty. It is concerned with the sense of loyalty, engagement and allegiance (Bowen and Chen, 2001). Composite measurement combines the first two types of measurements and measures customers’ product preferences, propensity to switch, frequency of purchase and recent purchases and the total amount of purchases. Loyalty only comes from a satisfied customer (Duncan and Elliot, 2004; Anderson, Fornell and Lehmann, 2004).

2.3.7 Customer-related Factors that affect Satisfaction
The following section will review customer related factors that affect satisfaction. The factors have emanated from the literature reviewed and are just some of the outstanding ones which contribute to customer satisfaction or lack of it.

2.3.8 Customer Expectations

Customer expectations play a significant role in customer satisfaction (Jones, Taylor, Becherer and Halstead, 2003). An important step in managing customer expectations is creating realistic expectations (Ranaweera and Prabhu, 2003). An understanding of customer expectations is a prerequisite for delivery of superior service which is the implicit performance standard that customers use in assessing service quality (Parasuraman, 1998).

According to Lewis (2004), there are two levels of customer service expectations and these are, dual levelled, desired and adequate. Dual levelled refers to the two levels at which the expectations occur. The first level is the desired service level is where the customer hopes to receive a blend of “can be” and “should be”. The adequate service level is that which the customer finds acceptable (predicted service). The desired level precedes the adequate level. Customers also expect a relationship with organisations that serve them; they want personalised relationships with the same representatives. “When employees remember and recognise them as regular customers they really feel good”.

With regard to expectations, each customer values various service attributes as more or less important and various service characteristics as more or less desirable. Yu (2005), Jamal and Naser (2002) and Garland (2002) are unanimous that the best customer satisfaction rating system will be based on efficient service quality mechanisms. In spite of these studies, the service organisation executive may not always be aware of which characteristics connote high quality to customers. Managers may not know about certain service features critical to meeting customers’ desires; or even be aware of what levels of performance customers’ desire along these features. This may lead to the managers triggering a chain of bad decisions and sub op-
timal resource allocations resulting in perceptions of poor service quality (Patterson, 2004).

In addition, discrepancy between the actual service and the promised service may have an adverse effect on customers’ perceptions of service quality (Zaltman, 2003). In most instances, customers may be “in the dark” as to what efforts the organisation is taking to deliver service, for instance improved time spent in queues, more training for customer service staff etc. These ‘behind the scene’ efforts, if not communicated to the customers, may deny the organisations the chance to favourably influence the customers’ service perceptions. However, there are obstacles faced by managers in the services industry in their efforts to improve quality. This is because it is difficult to manage quality without knowledge of those aspects the customers consider to be important when evaluating their experiences. Although several measuring instruments of customer satisfaction have been proposed, they are frequently too general or too ad hoc to ensure relevant, reliable and valid measurements for tracking customer quality perceptions (Tsang and Qu, 2000).

According to Cole and Dale (2005), management perceptions directly affect design, development and delivery of services, while consumers’ perceptions more directly determine the evaluation of the services consumed. Additionally, they suggested that one of the principal causes of gaps between the perceptions of customers and providers is the assumption amongst providers that they know best. In the majority of cases, although senior managers are charged with the main responsibility of knowing and understanding customers’ expectations, traditionally they have the least contact with customers and are not able to access customer needs accurately.

When a service rendered differs from the expected, the customer perceives this as a different service and a cause of dissatisfaction. Customers are willing to pay an increased premium for a satisfying service (Strauss and Mang, 2000). Expectations are developed about the service and when these expectations are met by the provider’s employees, the feelings towards the services provider remain positive even when a product proves unsatisfactory. Customer expectation standards are largely
determined by their predictions of how the service should be (Strauss and Mang, 2000). Customers should have a clear idea and realistic picture of how the actual services are rendered.

It is therefore necessary to influence customer expectations through communicating service through promotional campaigns and consumer education programs. Service quality and customer satisfaction will result from how close the actual service performance, the service process and outcome matches the customer expectations (Ojasalo, 2001).

Studies by Ranaweera and Prabhu (2003) and Yu (2007) show that customers may have other expectations towards the service than just those expressed to the services provider. Management of these expectations may provide an opportunity to achieve long lasting customer satisfaction, strong customer relationships and competitive advantage. Expectations and its management are of great significance to perceived service quality and customer satisfaction.

Customer perceived service quality results from how well customer expectations match the actual experiences of services. Expectations and their management can be used to provide long-term quality to create long-term customer relationships (Jones and Suh, 2000). The natural tendency of any services provider is to attempt to provide both short-term and long-term quality services to their customers. This is not always possible in practice. It is better to provide long-term quality at the expense of short-term quality than vice versa, to ensure customers are satisfied longer and retained over a longer period (Jamal and Naser, 2002).

With customer satisfaction being highly dependent on customer expectations, understanding the nature of expectations is very important at the individual level since customers have multiple kinds of expectations (Boulding, Lalra, Staelin and Zeithaml, 2003; Bordley, 2001). These expectations have to be met for the customer to remain satisfied.
The Expectancy Confirmation Theory is the underpinning paradigm of the Expectancy Disconfirmation Theory (Chea and Luo, 2006). The theory is based on the premise that a customer compares actual (perceived) performance and a standard (expectation). Disconfirmation is the discrepancy between performance and expectation. Confirmation occurs when performance matches expectation. If performance is better than expectation it creates positive disconfirmation. In contrast when the performance is below standard, it creates negative disconfirmation (Yu, 2005).

The Expectancy Theory is about the mental processes regarding choice, or choosing. It explains the processes that an individual undergoes to make choices. Customers’ expectations are confirmed when the product or service perceptions exactly meet expectations. Disconfirmation will occur as a result of discrepancy between expectations and perceptions. There are two types of positive disconfirmation, namely when the product performance exceeds prior expectations and negative disconfirmation when expectations exceed performance (Szymanski and Trawick, 2001; Yu, 2005).

Negative disconfirmation leads to dissatisfaction whereas positive disconfirmation leads to satisfaction (Mittal and Lasser, 2002). The individual makes choices based on estimates of how well the expected results of a given behaviour are going to match up with or eventually lead to the desired results. Motivation is a product of the individual’s expectancy that a certain effort will lead to the intended performance, the instrumentality of this performance to achieving a certain result and the desirability of this result for the individual, known as valence (Condrey, 2005).

2.3.9 Customer Commitment

Although accumulated evidence indicates that customer satisfaction influences both purchase and repurchase behaviour, this explains only a quarter of the variance in behavioural intentions (Szymanski and Henard, 2001). Repurchase behaviour is indicative of both customer commitment and loyalty. It has been observed that satisfied customers may leave a relationship and dissatisfied customers may not neces-
sarily switch to a competitor (Reichheld, 2003). This observation has opened the need for organisations to go beyond mere satisfaction to ensuring customer commitment as well as long-term customer retention in a competitive business environment (Morgan and Hunt 2004; Bendapudi and Berry, 2002; Hart and Johnson, 2001). According to Blery (2006) customer commitment has in many cases been identified as a crucial variable in the literature of relationship marketing. The term ‘relationship marketing first appeared in a 1983 conference paper. “Relationship commitment ensures the strength, stability, durability and even the profitability of a relationship” (Blery et.al, 2009). Customer commitment is defined as “all marketing activities directed toward establishing, developing and maintaining successful relational exchange” (Morgan and Hunt, 2004).

A study by Jones, Mothersbaugh and Beatty (2000) suggested that strong interpersonal relationships positively influence customers’ intentions to repurchase a product or service. Commitment in a business relationship goes beyond satisfaction. It has also been cited that commitment is positively related to intentions to repurchase (Fullerton, 2005). Service providers implementing effective relationship-specific investments can increase customers’ dependency, thus inhibiting them from switching to other providers (Steffes, Murthi and Rao, 2008). A study of relationship commitment involves measures of effective and calculative commitment (Gounaris, 2005). Affective commitment reflects the desire to continue a relationship because of a psychological attachment, kinship or bond. Calculative commitment on the other hand is based purely on a cost-benefit analysis separate and distinct from the relationship context. This type of commitment manifests itself in the perceived need to maintain the relationship due to the calculated investment and or termination cost of leaving the relationship (Knox et al., 2003). Customers will be committed to a bank where they feel the relationship is beneficial and therefore banks should endeavour to create committed loyal customers.

2.3.10 Customer Trustworthiness
Trust refers to the psychological benefit customers will have while enjoying certain services (Ranaweera and Prabhu, 2003a). Johnson and Grayson (2005) have suggested that the need to trust presumes a state of incomplete knowledge. A state of complete certainty regarding a services provider’s future actions implies that risk is eliminated and trust is redundant.

Cognitive trust refers to a customer’s confidence or willingness to rely on a service provider’s competence and reliability (Moorman, Zaltman and Deshpande, 1992). It originates from the customer’s ability to predict that the services provider will live up to their obligations. This confidence would arise from customers’ dealing with the service provider. The customer must trust the service provider, experience no anxiety when purchasing a service and must be sure that the service will be delivered correctly as desired. A customer must trust a bank with personal funds and believe that the bank will correctly provide services regarding his or her financial matters. Generally, customers’ trust in an organisation is an important determinant of the customers’ actions regarding that organisation. The definition and operationalisation of trust has been a source of considerable debate (Jansson and Chestnut, 2008). The bank-customer relationship must be one of absolute trust.

Very often, trust is defined as a belief regarding the characteristics of the organisation to be trusted (Gefen, Karahanna and Straub, 2003). The characteristics usually include the organisation’s integrity, benevolence and competence comprising the organisation’s trustworthiness, as perceived by the customer. For the purposes of this study, the term customer trustworthiness is used to represent the trust a customer has in a bank as an institution (De Witt and Brady, 2003; Gronholdt, Martensen and Kristensen, 2000).

The Theory of Planned Behaviour has shown beliefs to be important predictors of an individual’s intentions and subsequent actions. Therefore, a customer’s perceptions of a bank’s trustworthiness, a belief in its benevolence, integrity, and ability, should also affect consumer intentions to use a banking product (Anton, 2000). Organisations rely on commitment and trust to maintain long-term relationships with custom-
ers (Henning-Thurau and Klee, 2001). In service organisations the psychological benefit of trust is more important than social benefits or special treatment in customer relationships. In a setting of low customer contact and mass service, trust is an important driver of customer retention (Ranaweera and Prabhu, 2003a).

2.3.11 Valued Customer Experience

According to Hogan, Lemon and Libai (2003), Customers' interactive experiences play a key role in shaping their perceptions of an organisation’s value and the importance it places on the customer relationship. Good customer experiences drive customer satisfaction, trust and long-term loyalty. Poor customer experiences harm organisations through lost reputation, lost business and lost customers. It needs constant monitoring.

2.3.12 Socio-economic Factors

Changes in people’s social and economic environments affect their consumption habits and buying behaviour. Examples of these changes include lifestyles, greater mobility of people, increased appreciation for leisure time as well as changing payment systems which are technology mediated such as Electronic Funds Transfer (EFT) and Automated Teller Machines (ATMs), (Avlonitis and Panagopoulos, 2005).

A study was done in the USA and Europe in 2003 which identified clearly distinguishable payment cultures within Europe, for example the debit orientation in Germany, or the Smart Card tradition of French banks (Boulding, Kalra, Staelin and Zeithmal, 2003). Other social, economic and cultural factors that influence customers' adoption of banking services include industry strengths, home-banking and the commitment of consumers. Common trends can also be based on a neighbourhood and shared cultural patterns among countries (Bohle and Krueger, 2001; Parvatiyar and Sheth, 2000).

Studies carried out by Huber (2004); Sundqvist et al. (2002); Mahmood et al. (2004) examined the influence of social-cultural factors on online shopping behaviour of customers in Europe and the USA. The factors discussed in these studies included
demographics and lifestyle characteristics, mostly in developed countries. However, these studies only addressed customer adoption to the banks’ services and missed out on the assessment of customer satisfaction on the adopted products.

It has been acknowledged for a while that the adoption of new behaviours or innovations may be substantially affected by social interactions with others (Rogers, 2005). Across a number of disciplines there is a growing realisation that quitting behaviour may be socially affected as well. For example, it has been shown that people are socially affected by others in making important decisions. Marketers should be interested in this phenomenon because of its possible implications for understanding and predicting customer retention (Bailey, 2005).

Over the last two decades practitioners and academics have paid considerable attention to customer retention and to its antecedents and consequences, primarily because of the impact of retention on customers’ lifetime value and consequently on the company’s bottom line (Coltman, 2007; Rust and Chung, 2006 and Fecikova, 2003). However, almost all marketing-related analyses on social effects among customers have focused on customer acquisition and particularly on the adoption of new products, rather than on customer retention.

2.4 Bank-related Factors

The following section discusses bank related factors which may affect customer satisfaction or lack of it. The onus is on the side of the bank to deliver of any one of these factors in order to satisfy the customer. These are some of the outstanding aspects that have emerged from the literature reviewed.

2.4.1 Staff-customer Relations

Interpersonal relationships refer to the strength of personal relationships developed between customers and their services providers, in this case being the bank’s staff. Studies undertaken have looked at various behavioural aspects of employees for instance pro social behaviour (Kelley and Hoffman, 1997), organisational citizenship
behaviour (Bell and Menguc, 2002), customer oriented behaviour (Brady and Cronin, 2001) and listening behaviour (De Witt and Brady, 2003).

These studies have not been conclusive, but there is a convergence of views that frontline employees especially sales people are the contact persons between the customer and the organisation and their orientation towards the customer can determine their staying or leaving (Turnispeed, 2002; Ganesh et al., 2000; Bell and Menguc, 2002; Yu, 2007). This relationship can be developed through recurring interactions with care, trust, intimacy and communications between a services provider and a customer. People are likely to remain customers when this relationship is strong. The interpersonal relationship with bank products contributes significantly to the formation of switching barriers that makes customer defection difficult and costly. Applying this conceptualisation into a banking context implies an individual will have a positive intention to use banking products/services if they have a strong interpersonal relationship with bank staff (Parasuraman and Zeithaml, 1991). Dabholkar, Shepherd and Thorpe (2000) identified personal attention and comfort as provided by services providers’ employees as components of service quality. Service quality in this case was only viewed from the customer’s view point.

Building a good relationship with the customer is one of the key elements of customer satisfaction. Empathy plays an important role when dealing with customers. Addressing the customer by his/her name, knowing what he/she purchased lately and offering new products to his/her taste, makes him/her feel important and that the business has thought about him/her and his/her needs. Companies have adopted numerous service-quality and relationship-building initiatives designed to give customers a reason to do business with them (Trassoras, Weinstein and Abratt, 2008; Dabholkar, Shepherd and Thorpe, 2000).

Relationships between the bank and the customer can be enhanced by bank employees who interact with the bank customers either directly or in their involvement in and application of processes, tools and methods used to enhance their client value (Buttle, 2004). Valued customer experience can also be achieved when the custom-
er does not experience service failure (Michel, 2004). There is evidence in literature that service failure has a negative impact on satisfaction and word-of-mouth (Andreassen, 2001). A service failure is said to occur when the service encounter falls short of a customer’s expectation. This can lead to customer dissatisfaction, customer defection and negative word-of-mouth. Whilst banks strive to provide error free services, the banks’ interaction is influenced by many factors and service failures are sometimes inevitable (Andreassen, 2001; Lewis and Spyarakopoulos, 2001). The banks must therefore see to it that such service failures are minimised.

2.4.2 Customer Orientation of Service Employees (COSE)

Customer Orientation of Service Employees (COSE) refers to the extent to which employees’ behaviour in personal interactions with customers meets those customer needs. This concept has been a subject of much research. Keiningham (2005) was amongst the earlier researchers to study the constructs of COSE. His studies showed that customer orientation of a service organisation’s frontline employees is crucial for business success. Brown, Mowen, Donovan and Licata (2002) defined COSE as an “individual tendency or predisposition to meet customer needs in an on-the-job context” and conceptualised it as two dimensional.

The first dimension covers the employees’ belief that they can fulfill customers’ wishes, while the second dimension focuses on enjoyment which represents the extent to which the employee enjoys interactions with customers. Donovan, Brown and Mowen (2004) built on the findings of Brown et al. (2002) and applied an intra-organisational perspective and consequently considered the employees’ organisational commitment and their job satisfaction as outcome variables of their structural model.

In contrast to Brown et al. (2002), Donovan et al. (2004) argued that COSE consists of five dimensions, namely a need to pamper, a need to read the customer, a need for personal relationship, a need to deliver and a need to communicate. Henning-Thurau and Thurau (2003) define COSE in three dimensions lying between ‘individ-
ual dual knowledge’, ‘personal willingness’, and ‘social allowance’ as prerequisites for employees’ general behaviour. The three dimensions are: employees’ customer-oriented skills, the motivation to serve customers and perceived decision-making authority. The authors provided empirical support that an employee can only behave in a fully customer-oriented sense if all dimensions exist, that is, if they are motivated, competent and allowed to treat customers according to their requirements. The implication of COSE is that bank employees equipped with ‘customer skills’ will provide high quality service to customers leaving them highly satisfied.

Studies by Menon and O’Connor (2007) and Yu (2007) indicate a positive and affective display by services providers engenders positive effect in customers’ perceived service quality and repurchase intention. The study further linked the satisfaction of the services providers’ staff to perceived quality service by the customer. Buttle (2004) and Yavas, Benkenstein and Stuhldreier (2003) argued that the bank employees are critical in the implementation of the CRM agenda starting from the top to bottom. They argued that strategic CRM is focused on creating a customer centric culture in an organisation and it involves the executive management. Operational CRM involves middle level management tasked with automation of the customer-facing activities of an organisation while analytical CRM is concerned with exploiting and understanding customer data using data mining tools. The involvement of the top executive and middle level management implies that all the bank employees’ knowledge and skills contribute towards successful implementation of CRM strategies of any bank.
2.4.3 Customer Lifetime Value (CLV)

Customer Lifetime Value (CLV) has been defined as the present value of all future profits obtained from a customer over the life of his/her relationship with an organisation (Thomas, 2001). It can be defined as both the customer level and the segment level. CLV for a customer estimates a customer’s expected life and evaluates the Net Present Value (NPV) over this time (Reinartz and Kumar 2000; Thomas, 2001). CLV describes the net present value of the stream of profits expected over a customer’s lifetime purchases. From the anticipated revenues, the organisation subtracts the costs of attracting, selling and servicing that customer. CLV is important as it enables an organisation to know how much to invest in each customer.

CLV calculations provide a quantitative framework for planning customer investment and help organisations adopt long-term perspectives regarding their customers. One challenge of embracing CLV, however, is to arrive at reliable cost and revenue estimates. Also, an organisation may ignore short-term marketing activities that could increase customer loyalty (Kotler and Armstrong, 2006). Zaman (2008) has advocated for the use of Activity Based Costing (ABC) to develop the Customer Profitability Model (LCPAM). It uses the concept of revenue drivers and cost drivers of ABC, namely: Relationship revenues minus Relationship costs = Lifetime customer profitability. This would help managers understand where to precisely take action that will drive profits. ABC can be used to link customer transactional data with financial information (Kaplan and Narayanan, 2007).

2.4.4 Attractiveness of Alternative Products

Attractiveness of alternative products refers to the reputation, image and service quality of viable competing alternatives available in the market place (Patterson and Smith, 2003). Attractiveness of alternative products increases when a services provider offers differentiated services which are difficult for competitors to imitate. On the contrary, when there are few viable alternatives or the perceived benefit of switching between services providers is low, attractiveness of alternative products
reduces and customers are likely to stay in service (and vice versa), when the alternatives are more (Sharma and Petterson, 2000). They argue that this is driven by the extent of customer/service provider relationship commitment. Hence, it can be expected that the attractiveness of alternatives of other products/services offered by different banks, may have a positive impact on the attitude toward staying with a certain bank and hence may cause a customer to migrate and switch to a competitor (Bendapudi and Berry, 2002). In order to avoid this attraction to alternative products, banks have to offer exemplary service as well as develop products with direct customer involvement to retain their customers.

The image of the brand of the supplier is one of the most complex factors that can affect customer satisfaction of a customer (Jansson and Chestnut, 2008). It affects satisfaction in at least in two ways. Firstly, a customer may use his/her preferences to present his/her own image. This may occur both in the conscious and subconscious levels. This may also be supported by the theory of extended self which states that people define themselves by the possessions they have, manage or create (Sivadas and Venkatesh, 1995).

Studies have shown how consumers prefer brands with personality traits that are congruent with the personality traits that constitute them. Patterson and Smith (2003) have researched the link between brand personality and satisfaction. They did get positive support for the hypothesis that the attractiveness of the brand personality indirectly affects brand loyalty (Kim et al., 2001). Keiningham (2005) showed that people use products to enhance self-image. Secondly, according to social identity theory, people tend to classify themselves into different social categories. This leads to the evaluation of objectives and values in various groups and organisations in comparison with the customer’s own values and objectives. A quality product or service must have an acceptable amount of reliability; that is: “the product/service must perform its intended function over its intended life under normal environmental and operating conditions” (Kim et al., 2001; Keinigham, 2005).
According to Gomez’s study (2011), one of the reasons that many customers’ purchase travel ‘offline’ or without booking the ticket online is the unreliability of the online service when making a reservation. However, if a service proves to be reliable, then customers will use it and be satisfied (Pessemier, 2008). This too can be said of the banks that rely heavily on technology driven infrastructure whose failure impacts negatively on customer satisfaction.

Much of the literature on customer satisfaction has looked at brand loyalty (Tsang and Qu, 2000; Reinartz and Kumar, 2003) and there is a range of conceptualisations of satisfaction from repeat purchase to a lifetime relationship as conveyed in recent banking advertisements (Smith and Higgins, 2000). In addition, customers typically have satisfaction relationships with a range of brands; this may include several brands associated with the same category of goods. Polygamous loyalty (Mittal and Lasser, 2002) is consistent with the notion of avoiding putting all one’s eggs in one basket. In addition, services that a customer uses regularly may have a large interpersonal element with service agents, becoming in some cases an integral part of a customer’s life. Often as a result of learning and familiarisation, switching service providers carries a risk. Owing to the absence of tangibles, the risk associated with switching to a new service is perceived to be high, or, in other words, the customer cannot easily guess the quality of the service delivery of a new services provider, until they have sampled that service. The emotional costs already invested in relationships with a services provider contribute to make switching costs heavy (Lu and Lai, 2004).

### 2.4.5 Perceived Switching Cost

Mathur et al. (2008) described perception as active selection, organisation and interpretation of input. It is not merely sensory input supplied by eyes, ears and other receptors. Perceived switching cost is the degree to which an individual believes that switching a services provider would incur certain cost to him/her. The cost can be time, money, effort and any form of psychological cost associated with the change of services provider (Sharma and Paterson, 2000).
It is often grouped into three categories: continuity cost, sunk cost and learning cost. Continuity cost refers to the cost of losing special treatment and the cost of perceived risk or uncertainty that a new supplier might not perform the core services at a level equal to, or better than the current supplier (Jones and Farquhar, 2003). It is also referred to as lost performance.

It can be expected that a customer who believes that he/she receives special care or benefits from his/her bank would not be willing to search or consider switching to a competitor (Jones, Mothersbaugh and Beatty, 2000). Sunk cost refers to the perceived cost of investments in terms of time and emotional effort, already incurred in establishing and maintaining a relationship with the current services provider. A customer will not switch to the competition especially if he/she believes that a great amount of time and cost has been incurred to obtain the special care and trust and that this time and cost would be lost if he/she stopped using the service (Kim, Park and Jeong, 2004; Sharma and Paterson, 2000).

Move-in cost, often called set-up cost or learning cost, refers to the time, effort and money required not only for searching and evaluating an acceptable, alternative services provider but also for learning a new service routine subsequent to switching. However, especially in a banking context, move-in cost can be referred to as any financial and psychological burdens incurred when switching to a new bank, such as an account’s opening balance and the requirements needed by the new bank (Kim et al., 2004).

A study by Colgate and Hedge (2001) investigated the reasons for customers switching from services providers. Other studies also suggested a number of factors why customers do not defect to competing services providers. Some of which include switching costs (Burnham, Frels, and Mahajan, 2003; Grace and O’Cass, 2003; Kim et al., 2004; Panther and Farquhar, 2004; Patterson, 2004; Patterson and Smith, 2003), interpersonal relationships (Colgate and Norris, 2001; Colgate and Lang, 2001; Patterson, 2004; Patterson and Smith, 2003) and inertia (Ranaweera and
Prabhu, 2003a; White and Yanamandram, 2004). It must be noted that the afore-
mentioned studies did not differentiate between satisfied and dissatisfied customers.

2.4.6 Perceived Confidentiality (PC)

According to Meuter et al. (2000), confidentiality is the property of an information
system that ensures that transaction information cannot be viewed by unauthorised
persons. Encryption is used to ensure confidentiality. Perceived confidentiality is the
degree to which a person believes that the collection and subsequent access use
and disclosure of his/her personal data and payment details is consistent with his/her
expectations.

Customers care about how banking products operate and the access procedures are
very important to a customer. Therefore, when consumers believe their account de-
tails are kept in confidence, this becomes an enabling factor for them to continue
trusting and using the bank’s facilities. On the other hand, when such concerns are
not well addressed, the customer may become dissatisfied and may eventually
switch to a competitor who promises to keep his details confidential (Pousttchi,
2003).

2.5 Strategies used by Kenyan Banks to Satisfy and Retain Customers

In the Kenyan Banking Surveys of 2009 and 2010, none of the banks had customer
satisfaction in their strategies. Instead, they outlined strategies to expand their as-
sets and customer bases as well as strategies to help them comply with prudential
guidelines (Central Bank of Kenya, 2008 and 2009). The increasing competition has
seen banks replicate each other’s customer acquisition and product strategies. As
earlier mentioned, no Kenyan bank has empirically tried to find out what will satisfy
its customers.
2.5.1 Opening of New Accounts

Banks have been aggressively creating bank accounts with no minimum opening and operating balances with the aim of attracting more customers. In addition, the banks have been marketing their accounts with targets assigned and rewards given for targets met (Cooperative Bank, 2010). Window periods have been given during which customers open accounts and win prizes ranging from air tickets to popular destinations, dinner tickets and cash prizes and properties (Cooperative Bank, 2010). The Co-operative Bank of Kenya’s ‘Vuna Mamiliioni’ (“harvest millions when one opens an account”) promotions saw new account holders walk away with Kshs 5 million in prizes. The promotion campaign of Kenya Commercial Bank’s top prize was an acre of land (Kenya Commercial Bank, 2009). Equity Bank has stepped up its campaign by hyping the benefits of being ‘member’ of the bank and getting people who have benefited from its services to appear on TV and applause those benefits (Equity Bank of Kenya, 2009). These strategies have seen banks open many accounts, for instance the KCB promotion led to 150,000 more account holders while the Co-operative Bank opened 500,000 new accounts (Co-operative Bank, 2010). These campaigns aimed to increase customer numbers and in turn, bigger profits for the banks and not necessarily focused on customer satisfaction.

2.5.2 Call Centres

As mentioned earlier, a few banks like Kenya Commercial Bank and the Co-operative Bank of Kenya have established call centres which are operational twenty four hours. This is a central referral point for the customer for any banking query they may have in a timely manner. Timelines in resolving customer issues can impact on customers’ levels of satisfaction (Maxham and Netemeyer, 2002). The respective staff members are equipped to resolve customer issues relating to any of the bank products as studies have shown that timely resolution of customer problems can improve satisfaction (Koutouvalas and Siomkos, 2006). The call centres have state of the art equipment with twenty four hour call-in services via phone or electronically to
facilitate faster communication. It is envisaged that the call centres can offer electronic banking facilities in the future.

2.5.3 Longer Business Hours

Service offerings, such as extended hours of operation and competitive interest rates also play a role in determining satisfaction. Satisfaction is an “overall customer attitude towards a service provider” (Levesque and McDougall, 2000), or an emotional reaction to the difference between what customers anticipate and what they receive, regarding the fulfilment of some need, goal or desire. A similar definition is provided by Gerpott et al. (2001) who propose that satisfaction is based on a customer’s estimated experience of the extent to which a provider’s services fulfill his or her expectations.

Longer business hours are being used as a business strategy as they reflect the banks’ flexibility and willingness to go the extra mile to accommodate customers who are too busy during the day to go to banks. Studies have shown that when customers perceive that their bank cares, they develop an emotional value and tend to stick to it (Roig et al., 2006). It also enables businesses that operate twenty four hours and those that are open until late an opportunity to deposit their proceeds without fear of loss through robbery. It has largely been seen as a strategy to satisfy customers. Any effort that goes towards providing the customer with more convenience impacts on customer satisfaction.

2.5.4 Suggestion Boxes

Most banks have placed suggestion boxes in their banking halls. The suggestion box is meant for customers to express their satisfaction or dissatisfaction with service delivery. They may also submit suggestions on how services can be improved. Studies have not been done yet to ascertain the effectiveness of these boxes in communicating customers’ feedback to the management. The risk of suggestion boxes is the possibility of staff at lower levels charged with opening these boxes may also conceal the undesirable feedback from the management. A study by Prabhakar (2005)
highlighted the use of suggestion boxes as a powerful tool in capturing customers’ feedback.

2.5.5 Business Clubs

Banks such as Barclays Bank of Kenya and Kenya Commercial Bank have formed business clubs for their business account holders targeting the Small and Medium Enterprises (Kenya Commercial Bank, 2010; Barclays Bank of Kenya, 2009). The banks pay consultants to conduct workshops on how to improve entrepreneurial skills for this category of customers. From time to time the banks organise international trips where their Small and Medium Enterprises (SME) customers can meet their counterparts in other parts of the world to sharpen their business skills. Such clubs have attracted customers to the banks (Kenya Commercial Bank, 2010; Barclays Bank of Kenya, 2009).

2.5.6 Corporate Social Responsibility Programs

Banks are involved in many community based social programmes. Banks, unlike before are actively involved in the building of classrooms for schools especially in the slum areas, building hospitals, paying school fees for poor children and supporting orphanages (Equity Bank, 2009). Equity Bank and the Cooperative Bank of Kenya have an education partnership fund to assist in paying school fees for 400 children from poor homes every year (The Cooperative Bank of Kenya, 2010).

Equity Bank also helps in educating poor children who are brilliant through high school and university and offers them jobs with the bank after graduation (Equity Bank, 2011). Standard Chartered Bank sponsors the Standard Chartered Bank Nairobi Marathon annually (Standard Chartered Bank, 2010). During 2009-2011, the proceeds went towards an eye hospital to facilitate eye surgeries that would give back sight to those who cannot afford operations (Standard Chartered Bank, 2010).

A holistic approach to CSR programmes, that acknowledges every area of potential influence, will have wide ranging benefits for a business. In general, customers want
to buy products from companies they trust; suppliers want to form business partnerships with companies they can rely on; employees want to work for companies they respect. These attributes need not cost a lot to a business, in fact giving employees the chance to volunteer for causes they believe in could be much less expensive to implement than making a large donation to charity, and the effect it can have on an employer’s reputation can also be longer lasting.

Progressive companies practice CSR because it is good for business whether it is through brand building, mitigating risk or improving employee retention. In many cases, stakeholders look for commitment from companies to improve their societies and expect a certain level of CSR.

By building goodwill with customers a brand is able to rely on their loyalty and repeat custom. Obviously this is good for business. Businesses have a choice; they can build brand awareness and goodwill by giving cash to charity and getting into the paper, or, they can invest similar sums of money into developing new products and services that meet societal or environmental needs. The returns in the short run are likely to be skewed towards the charity donations, but in the long-term a company that has invested in a worthwhile product will not only have goodwill, but a new product bringing in new customers.

2.5.7 Re-branding Efforts

Over the last ten years almost all the banks in Kenya have re-branded and changed their slogans. This has taken the form of changing corporate colours and their bank layout to enable for easier accessibility to bank management. They want to be perceived as different and closer to the people. They have adopted colours that are seen to be friendlier to attract customers. Examples of these are Standard Chartered Bank, Barclays Bank, Kenya Commercial Bank as well as the Co-operative Bank of Kenya and the National Industrial Credit Bank (The Banking Survey Kenya, 2008). A strong brand image may help the customer to relate strongly with their bank (Ghazizadeh, Besheli and Talebi, 2010).
2.5.8 Customer Service Programs

Banks are constantly taking their staff through customer service programs to enhance their skills in the handling of customers (Standard Chartered Bank, 2010). Most banks have their own training schools where staffs are booked for various customer service courses which are facilitated by external customer service experts. At the Cooperative Bank of Kenya, all new staff must undergo customer service training undertaken by experts (The Cooperative Bank of Kenya, 2010). This is also true for most banks (The Banking Survey Kenya, 2009).

2.5.9 Loyalty Programs

Researchers such as Trasorras, Weinstein and Abratt, (2009) have demonstrated a positive correlation between quality and customer satisfaction. Satisfied customers are bound to come back if they were impressed by the product and service the first time round. In fact, they spread the word round by telling their friends and relatives about the particular product or service that impressed them thus realisation of accumulation of many customers and in the long run customer satisfaction (Jamal, 2004). For this reason, more organisations are spending more resources to nurture and sustain customer loyalty by increasing their number of satisfied customers. Kotler and Keller (2006) and Turnispeed (2002) all agree that, whether or not they remain, customers depend on an organisation’s effectiveness in combating the major threat to business success-consumer promiscuity. This is not a matter of morals but of common sense.

An organisation has to develop a relationship with all its customers to ensure that the customers feel that their needs are important to the organisation and are being met (Rootman, 2006; Roy, 2008). A satisfied customer becomes a loyal customer. For continued customer loyalty, some banks are rewarding good customers with bonus points which can be redeemed against prizes. This is especially common to the users of their loan facilities, including credit cards. The more one spends, the more points one earns (Cooperative Bank of Kenya, 2009).
2.5.10 Differentiation Strategies

Marketing efforts are targeted at different market segments. Top of the range customers are enjoying executive services at a premium, for instance the ‘Executive’ banking services offered by The Co-operative Bank, ‘Excel Banking’ of Standard Chartered Bank and the ‘prestige club’ services of Barclays Bank (Barclays Bank of Kenya, 2009). Prestige customers have private serving areas with televisions, coffee and snacks served. Customers enjoy the privacy and the aesthetic feeling of being ‘valued’. Other smaller banks have designated special counters for their premium customers so that they do not queue with the other customers (The Banking Survey, 2009).

2.6 Conclusion

Underpinning the sections discussed in this chapter, it is acknowledged that organisations have to constantly endeavour to satisfy their customers for them to compete effectively in the competitive business environment. The concepts of customer satisfaction and retention have been explored in this chapter together with other proximate factors which contribute to customers’ satisfaction or lack of it. Pertinent issues like customer-staff relationships, customer trustworthiness, perceived confidentiality and switching costs have been looked at. From the above discussions, it remains clear that customer satisfaction is a key to the survival of any business much more than banks whose only source of business is the customer. From the discussions in this chapter, it is evident that banks need to go out of their way to keep their customers satisfied. A bank should not only deliver high customer satisfaction relative to the competitor but it should strive to maximise every customer’s satisfaction in order to maximise revenues from the specific customer. Even though in the short-term the strategies aimed at satisfying the customer may affect the banks’ profits, in the long run, it will be worthwhile as the benefits that accrue from a satisfied customer are many and directly affect the banks’ bottom lines. This in turn requires that banks harness all their resources towards meeting the needs of their customers. The following chapter will address ‘customer centricity’ as the core to creating customer in-
timacy which in turn strengthens the bond between the customer and the bank making it hard for the customer to defect to the competition.
CHAPTER THREE: CUSTOMER CENTRICITY

3.1 Introduction

Customer centricity refers to the orientation of an organisation to the needs and behaviour of its customers (Hamilton, 2004). The ‘customer centricity’ concept was initially put forward by Bailey (2005) who later became credited for creating customer-focused organisations. Bailey (2005) defined customer centricity as the act of aligning the resources of an organisation to effectively respond to the ever-changing needs of the customer, while building mutually profitable relationships. Customer centric organisations have moved beyond lip service and re-oriented their entire operating model around the customer increasing customer satisfaction and their own profitability in the process (Hamilton, 2004).

Increasingly, organisations especially in developed countries have aspired to become customer-centric. Relatively few have made significant progress. For too long, organisations have focused internally (total revenue, product profitability, operational efficiency and organisational structure) on product features (playing leap frog with the competition) and on price (can the same or a better product be delivered at the same or better price). With customer centricity, organisations must think externally. Without customers there is no business (Bailey, 2005). This chapter presents a review and a discussion on the various issues surrounding the customer centricity concept.

3.2 The Customer Centricity Concept

Customer centricity occurs when organisations make the needs and resources of individual customers the starting point for planning new products and services or improving existing ones. Truly individualised, customer-centric relationships have been almost impossible for organisations to maintain because of the vast number of customers with which organisations must interact and deal (Griffins, 2002). Organisations therefore often respond by predefining touch points and ignoring inputs from customers outside of those touch points. For example, during the product develop-
ment process, lead customers may be invited to join focus group meetings, but many others may be ignored (Giles, 2005). As mentioned earlier, retaining existing (profitable) customers is far more advantageous than acquiring new customers. The question is why do so many organisations invest significant amounts in acquisition, but consider retention an expense or a periodic initiative? Bailey (2005) provides two primary answers to this question: firstly, they lack a clear understanding of the customer and importance of a successful relationship; and secondly, they attach higher reward systems towards new business which in most cases is a short-term measure.

3.2.1 Open-ended Funnel Effect

Lack of customer centricity in an organisation can be explained by the use of the Open-ended Funnel Effect Model which shows the effect of a non customer-centric organisation over a given period of time. This is shown in Figure 3.1. In this figure it is shown that newly acquired customers are initially retained by the organisation but due to lack of customer centricity, they usually churn or defect to other products.

Figure 3.1: Open-Ended Funnel Effect

Open Ended Funnel Effect (Non-Customer Centric Firms)

Source: Bailey, 2005
According to Bailey (2005) customers know when they are being treated as a number, a “win” or a one-time transaction. Customers can also identify those “positive changes” that are designed (ONLY) for the business’ internal efficiency and this does not help in creating loyalty. Becoming customer-centric requires that one demonstrates to the customers that they are important to the organisation and the goal is to not only met, but exceeds their expectations both now and for the foreseeable future. In short, the business must get into the heart and mind of its customer (Burhan, Meurer and Kanitz, 2011).

According to Gibbert, Leibold and Probst (2002) an added challenge impacting high-tech organisations is the focus on leading-edge technology and related features. After the organisation and product-line achieve a measure of success, competition emerges. The competition will do one or both of the following: 1) offer the same product/same features at the same or a better price; and/or 2) offer the same product with more features at the same or a better price. Participating in this cycle turns products into a commodity. A key to becoming customer-centric is determining what is required to keep the (profitable) customers for the long-term and implementing strategies to do so. Without a customer-centric strategy, it will only be a matter of time before customers defect (Bailey, 2005; Sheth, Sisodia and Sharma, 2004).

According to Levine et al. (2001) organisations normally struggle with changes in their customers’ behaviour. Instead of seeking information from corporate sources, the product producers or services providers, customers increasingly turn to other customers or third-parties like web sites (Dellarocas, 2003). In an attempt not to have their marketing functions disintermediated, some organisations have begun to embrace web as a medium to create an open dialogue with customers. Others have attempted to engage customers even more thoroughly in a joint informational production process from product development to after-sales (help desk) service (Levine et al., 2001).

Discussion forums or blogs, for instance, have become a medium for organisations to facilitate a customer-centric, joint-production process with their “customer commu-
nities”. This approach encourages discussion, but frequently limits customers to comment on an organisation’s published information content, without being able to change it (Sheth, Sisodia and Sharma, 2004).

In this new world of customers sharing their knowledge and reactions openly with others, the notion of customer-centric business is becoming redefined. Customer centricity assumes that customers have specific needs and wants that only they can articulate (Bailey, 2005; Sheth, Sisodia and Sharma, 2004).

This articulation occurs not just in communication with representatives of the respective organisations but also in discussions with other customers. These needs are articulated not simply through discussions, but through a co-creation process. Thus, knowledge creation with customers becomes the focus of the customer-centric processes (Gibbert, Leibold and Probst, 2002). Hence, customer engagement and co-creation become metrics for the success of customer-centric processes. Customer engagement is defined as the intensity of customer participation with both representatives of the organisation and with other customers in a collaborative knowledge exchange process (Sheth, Sisodia and Sharma, 2004).

3.3 Customer-Centric Marketing

Customer-centric marketing is a new concept popularised through satisfaction and needs/requirements studies (Levine et al., 2001).

It largely focuses on efforts to improve customers’ perceptions of their experiences relating to an organisation’s products or services or the organisation itself. Customer-centric strategies tend to focus on improving customers’ levels of satisfaction with the aim of lengthening customer lifetimes and increasing lifetime values. Customer-centric marketing aims largely at retaining customers and developing loyalty from them (retention marketing) (Keiningham, 2005). Lerzan and Tiffany, (2005) have highlighted the difference between brand-centric marketing and customer-centric marketing. Brand-centric marketing involves ma-
nipulating the elements of the marketing mix to improve brand equity. Customer centricism focuses on satisfying customers’ needs in order to reap maximum benefits from the customer. The ultimate goal of such efforts is to have customers including an organisation’s products or services in their evoked sets of alternatives and to improve the relative preference ranking of an organisation’s offerings vis-à-vis its competitors.

According to Keiningham (2005) many organisations collect both brand-centric and customer-centric measures but never connect them. Marketing has traditionally focused on brand-centric objectives. While both brand-centric and customer-centric approaches are aimed at affecting customers’ attitudes and behaviours, managers and researchers tend to dichotomise these functions. For example, in most organisations, brand management efforts are usually considered separately from satisfaction management efforts and are frequently the responsibilities of different departments within the organisation (Suchet, 2004). It is however important to note that both brand-centric measures (such as brand preference) and customer-centric measures (such as customer satisfaction) are needed in order to accurately predict future purchase behaviour of customers.

3.4 Complaint Management and Satisfaction

Not all dissatisfied customers complain but they have higher probabilities of reducing their product usages and purchases. Satisfied customers, on the other hand have a higher probability of generating positive word-of-mouth communication which helps attract potential customers (Brockett and Anderson, 2000). Complaint management positively influences customers’ expected utilities of one approach to addressing problems. Employees should adjust to the needs of the customer as part of their interaction, learn to listen more and endeavour to exceed their expectation.

Organisations should provide an appropriate forum for customers to complain and give their feedback (Dixon, Freeman and Toman, 2010). Suggestion boxes, toll free numbers, websites and e-mail communication allow for quick communication. Organisations must also respond quickly and constructively to any complaint of the cus-
tomers. Studies showed that 54-70 percent of customers will do business again with the organisation if their complaint is resolved. This figure rises to 95 percent if the customer feels that the complaint was resolved quickly. Customers who have complained to an organisation and had their complaints resolved tell an average of five people about the good treatment they received (Colgate and Lang, 2001; Patterson, 2004; Patterson and Smith, 2003).

Meuter et al. (2000) demonstrated that even in self-service environments where customers are supposed to help fulfil their own needs, employees’ initiatives to improve service and customers’ satisfaction in such areas as technical support and troubleshooting still plays a critical role in an organisation’s strategy. Studies have shown that well managed service organisations share the following practices: a strategic concept, a history of top management commitment to quality, high standards, self-service technologies and systems for monitoring service performance and customer complaints, and an emphasis on customer satisfaction (Kotler, Armstrong and Cunningham, 2002).

Dixon, Freeman and Toman (2010) argued that exceeding customer expectations during service interactions makes customers more loyal than simply meeting their needs. Companies create loyal customers by resolving their problems quickly and easily. Empirically, they were able to establish that what a large percentage of customers really want and that they rarely get a satisfactory solution to their service issue and also that customers resent having to contact the company repeatedly to have their issues resolved. They posit that companies should reduce the efforts customers spend to have their issues resolved as this causes them to switch from one services provider to another. Dixon, Freeman and Toman (2010) have posited that banks should stop trying to delight their customers and just solve their problems. Dayan, Al Tamimi and Elhadji (2007), while investigating the impact of complaint management in the United Arab Emirates (UAE) banking industry noted that there are three impacts of post complaint behaviour in the UAE banking industry. Their empirical studies confirmed that interactive justice (courtesy), distributive justice (refund) play dominant roles in the customers’ decision to stay or not to stay with a
bank as they impact both negative and positive emotions as well as exit loyalty. They recommend timeliness in resolving queries for the banks in general as this will directly impact customer retention.

3.5 The Development of Total Quality Management

Total quality management (TQM) was born out of the work of the quality experts of the twentieth century. Experts like Juran and Gryna (1993), Feigenbum (1991), Deming (1986), Crosby (1979) and Ishikawa (1985) provided the base and philosophy for upholding the merits of quality in the modern business and industrial structure. TQM addresses issues of customer satisfaction, employee satisfaction and cost effectiveness in an organisation. The goal of TQM is to make the customers happy, empowering the employees, an increased income and decreased costs arising from products that meet customers' needs (Juran and Gryna, 1993). They summarised their findings in three proposed functions and a set of practices and preferred actions to retain standards of quality. These are: quality planning, quality control and quality improvement. They also emphasised reduction of the endured cost which is the cost associated with maintenance of quality. Four types of costs that are related with the maintenance of quality according to Juran and Gryna (1993) are:

1. Internal failure costs: Associated with defects occurring before shipment of a product to customer;
2. External failure costs: Failures occurring during post shipment to customer;
3. Appraisal costs: Incurred in determining the degree of conformance to quality requirement;
4. Prevention costs: Incurred in keeping failure and appraisal costs to a minimum.

Nilson, Johnson and Gustafsson, (2001) have emphasized that Total quality management (TQM) is an important tool for promoting customer-centricity. TQM is an organisation-wide approach to continuously improving the quality of all the organisation’s processes, products and services. This commitment to customer satisfaction through continuous improvement becomes part of the organisation's culture. Imple-
mentation of TQM in an organisation is aimed at generating a competitive advantage.

Further argument in favour of TQM is from Saunders and Graham (2002) who posit that TQM is an important concept especially for banks in understanding quality. Emphasis on TQM may differ from one industry to another and from one organisation to another but there are certain essential principles common to all (Richard, Thirkell and Huff, 2007; Li, 2010). TQM aims at achieving greater profits for an organisation through increased market share and reducing cost by producing products or service of such high quality in conformity with customers’ expectations. Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs (Kotler, Armstrong and Cunningham, 2002). This is a customer-centred definition.

Saunders and Graham, (2002) have also argued that customer satisfaction does not produce customer lifetime value on its own. It is widely accepted that satisfaction and quality are closely linked to market share and customer retention (Richard, Thirkell and Huff, 2007; Li, 2010). There are overwhelming arguments that it is more expensive to win new customers than to keep existing ones (Khalifa, 2004; Howcroft, Hamilton and Hewer, 2002). This is in line with Athanassopoulos, 2001 and Gounaris and Stathakopoulos’s (2001) arguments that customer replacement costs, like advertising, promotion and sales expenses, are high and it takes time for new customers to become profitable.

There is also evidence that the increase of the retention rate implies greater positive word-of-mouth (Saunders and Graham, 2002), decreased price sensitivity and future transaction costs (Reichheld and Sasser, 2001) and finally, leading to better business performance (Li, 2010; Sheth and Sisodia, 2004). There is thus a very close relationship between the aims of TQM and customer satisfaction. TQM aims to go beyond simply meeting customer requirements or responding to the customer feedback on the products and services offered by the organisation. While the use of TQM methodologies reduces the cost of failure (e.g. by reducing scrap, factory re-work
and customer dissatisfaction) it may introduce other costs due to the need for staff and supplier training.

The benefit of implementing TQM can be seen in the quality, brand value, decreased time it takes to market goods and services, higher customer confidence and greater return. Above all, TQM facilitates faster, more sustainable development (Schaltegger, Herzig, Kleiber and Muller, 2003). Thus, organisations must maintain organisation-wide strategies that devolve responsibility to individual employees for the quality of their work and the work of their teams. The best standards to measure TQM are the range of International Standards Organisation (ISO) 9000 standards. For a company to receive ISO 9000 certification is not only a fashion, but also a general prerequisite for running a fine business (Yu, 2007). An ISO certification is necessary for a company's image and reliability in the international and local markets.

TQM, as proposed by Dimitriadis (2006), calls for bringing the core concept of quality to early transformatory processes. Deming's (1986) chain reaction advocates starting with quality of initial design and further systematically operates on 'Total Quality principles' to achieve the best possible outcome. When each input from raw materials through resources and design produces exceedingly and continually improved finished goods, TQM is said to be operational.

Since the beginning of the twentieth century the quality function has developed from what at best could be described as a cursory inspection of products, to a concept of Total Quality Management (TQM) - a management philosophy in which the needs of the customer are exceeded and which encourages all employees to strive towards continuous improvement of the quality of the products and services of their organisation (Adamson, 2005). The primary objective of the quality function is to ensure that all products are manufactured free from defects, conform to all specifications and satisfy the customer's requirements. This function is the main underlying concept behind quality control, quality assurance and TQM, and innovations (Sheth, Sisodia and Sharma, 2004). Richard, Thirkell and Huff (2007) helped to popularise the use of TQM and introduced the "Four Absolutes of Quality" which identified quality as con-
formance to requirements, achieved through prevention rather than appraisal. They championed "zero defects" as the quality performance standard and believed that by setting up processes designed to prevent errors, not only will improve quality, but production cost will also be reduced. A quality product brings satisfaction to customers.

TQM focuses on the customer. Elimination of defects in products is aimed at ensuring customer satisfaction. The drive to produce goods that are superior in world markets has led some countries and groups of countries to recognise and award prizes to organisations exemplifying the best quality practices. There is a strong relation between product and service quality, customer satisfaction, and organisation profitability (Besterfield et al., 2004). Higher levels of quality result in higher levels of customer satisfaction while supporting higher prices and lower costs. Therefore there is a high correlation between product quality and organisation profitability. Total quality is the key to value creation and ultimately, customer satisfaction (Kerzner, 2006).

In practicing TQM, some organisations ran into problems and started focusing too much on deadlines and processes and lost sight of the needs and wants of customers (Kotler and Keller, 2006). Marketers play a central role in helping their organisations to define and deliver high quality goods and services to target customers. Firstly, they must identify customer needs and requirements and secondly, communicate customer expectations properly to product designers. Thirdly, they must ensure customer order forms are completed properly and on time; fourthly, they must ensure customers have received proper instructions training and technical assistance in the use of the products. Fifthly, they must be in touch with the customer after sales to ensure they remain satisfied and lastly, they must gather customer inputs for product and service improvements and convey them to appropriate departments (Sheth, Sisodia and Sharma, 2004). When all this is done, marketers are making substantial contributions to TQM, thus enhancing customer satisfaction and organisation profitability. TQM is an organisational culture committed to customer satisfaction through continuous improvement (Kerzner, 2006; Besterfield, et al., 2004).
This culture varies both from one country to another and between different industries but has certain essential principles like getting the product/service to the customer’s specifications which can be implemented to secure greater market share, increased profits and reduced costs (Kanji and Asher, 2003). The antecedent of successful implementation of a quality culture within an organisation suggested that to achieve customer satisfaction, the organisation and much more so banks, have to improve continuously all aspects of its operation. Total Quality Management (TQM) could be described as a philosophy that involves everyone in an organisation in a continual effort to improve quality and achieve customers’ satisfaction. Despite the use of the latest process improvement techniques and capable management, an organisation’s neglect of its customers’ quality requirements may lead to disaster (Slack, Chambers and Johnstone, 2006).

3.6 Customer Buying Decisions and Satisfaction

According to Bauer, Grether and Leach (2002) customers are becoming increasingly sophisticated and demanding. They expect organisations to be highly responsive and increasingly dependable and to provide more facilities for their convenience. On the other hand, organisations have realised the need to get closer to the customers to be able to increase their market share and beat the competition, particularly in the present-day fast moving, turbulent and competitive business scenario (Dash and Sarangi, 2008).

Merielle, Creusen and Schoormans (2005) posit that in the banking industry, it would appear that at the point of selecting a banking service, customers display different decision-making styles based on their individual characteristics. They have a specific focus when coming to the bank and the attainment of what they had focused on may cause satisfaction or dissatisfaction. Varying needs and wants of customers are exhibited in their different shopping styles (Strauss and Mang, 2000). These styles are dictated by the customers, personalities and attitudes. Further, based on the unique individual characteristics, personal taste and environment, each customer develops a unique shopping style. This style can also be influenced by product appearance.
(Merielle, Creusen and Schoormans, 2005). Therefore, factors such as loyalty, brand and price combine to determine an individual’s unique shopping habits. In the banking industry, the use of banking products will depend on an individual customer’s taste. As they shop for what best suits them, they will be driven by each customer’s individual characteristics (Strauss and Mang, 2000). According to Sproles and Kendall (1986) and Dibb (2001) identification of these characteristics amongst consumers helps to profile an individual customer’s style, educate customers about their specific decision-making characteristics and counsel families on financial management (Strack, Werth and Deutch, 2006). The essence of Customer Relationship Management is for an organisation to be able to segment their customers and identify unique characteristics and needs in each segment and meet them leading to high levels of customer satisfaction (Brown, 2000).

3.7 Variety in Consumer Behaviour

A customer-centric business makes the needs and resources of individual customers the starting point for planning new products and services or improving existing ones. For an organisation to plan for proper customer centricity strategies, it is important to understand consumer consumption behaviour. According to Bass et al. (2002), individual exhibits varied consumption behaviour by making choices that differs from one occasion to the next in the same class of potential substitutes.

Explaining such varied consumer behaviour has been a subject of concern and controversy in the marketing community. Some investigators believe that the stochastic component of individual choices is large and practically irreducible (Hoogendoorn and Sikkel, 1999). Other investigators believe that the irreducible stochastic component is small and that omitted variables and faulty measurements account for failures to predict individual choices accurately. According to Bass (2004) and Pessemier (2008) a well-developed theory of varied consumer behaviour can improve an organisation’s management capacity to predict individual choices. Such a theory may connect the early research in marketing that addressed aggregate purchases and indi-
ces of brand loyalty (Cunningham, 2001) with more efforts that focus on the individual and predict choice probabilities for sets of objects (Tversky, 2002).

Of greater importance, however, is the fact that varied consumer behaviour calls attention to severe limitations inherent in most of the choices made by consumers. Tversky (2002) argues that increasing the level of any desirable property of a preferred object increases the chance of that object being chosen by consumers. Furthermore, if the last-chosen object is removed from a choice set, the item most similar to the removed item is most likely to be chosen on the next occasion. In the banking scenario, many products tend to be similar and the removal of one may cause the customer to choose the closest to it. Bass (2004) has argued that there are exceptions for instance when an individual becomes sated by repeatedly choosing and using the same product or service. Newness and novelty frequently are valued in their own right. Recognising variety-seeking motives has major consequences in marketing.

The validity of a choice must be questioned if the model is based on the assumption that buyers prefer brands similar to their “ideal” brand and if it makes no allowance for variety seeking motives. Such models include all internal analysis-of-preference models, typical attribute-based choice models, and the widely used conjoint model (Shwartz, 2004). Howard and Sheth (2001) suggested that in product classes where the risk is not very high, consumers tend to become bored with brands they have frequently repurchased and hence increasingly look for something new. For banking products, in order for management to make an informed choice during customer behaviour analysis, they need to collect the data for analysing more complex motivations, including knowledge of the history of choices made by each individual as well as the choices made by socially relevant peers (Howard and Sheth, 2001).

3.8 Challenges to Becoming Customer-centric

According to Bailey (2005) a key challenge to be customer-centric is overcoming two of the most common misconceptions. The first misconception is that becoming cus-
customer-centric is a customer service problem. While customer service is an important aspect of the initiative, this is where many of the problems (of not being customer-centric) manifest themselves. In order to become customer-centric, the root cause of customer dissatisfaction must be addressed. The second misconception is that becoming customer-centric requires one to become a ‘yes-man’ for the customer. Becoming customer-centric actually requires that one say “no” when it is appropriate to say “no” whilst offering alternative approaches to meet the customer’s need.

According to Ojasalo (2001) a voice-of-the-customer strategy includes continuously obtaining and analysing customer input from every touch point that a customer may have with the organisation. These touch points include: sales/account management, customer care/technical support, field service, credit and collections, customer surveys and interviews, customer focus groups, user groups or board of advisors, third-party vendors (service delivery partners) and all forms and media (web site, phone, email, fax, orders, complaints, returns, etc.). In summary, becoming customer-centric encompasses every aspect of an organisation and must start at top management level (Bailey, 2005; Frow, 2005).

Shah et al. (2006) identified some issues that hinder organisations from becoming customer-centric are factors related to the organisational culture, structure, processes and the financial metrics of an organisation.

Moller and Halinen (2000) have further pointed out that a lack of appropriate technology that would capture data and enable segmentation schemes that will enable banks to focus on specific segments of customers can be a hindrance to becoming customer-centric. This they argued is in view of the fact that banking customers are becoming more sophisticated in banking choices and behaviour. Investment in sophisticated systems will greatly help the banks in becoming customer-centric. However, Bowen and Chen (2001) said that having satisfied customers is not enough, there has to be extremely satisfied customers. This is because customer satisfaction must lead to customer loyalty.
Bansal and Gupta (2001) have pointed out that building customer loyalty is not a choice any longer for businesses: it is the only way of building sustainable competitive advantage. Building loyalty among key customers has become a core marketing objective shared by key players in all industries catering to business customers. According to Sivadas and Baker-Prewitt, (2000), the strategic imperatives for building a customer-centric organisations and a loyal customer base are;

- Focus on key customers;
- Proactively generate high level of customer satisfaction with every interaction;
- Anticipate customer needs and respond to them before the competition does;
- Build closer ties with customers; and
- Create a value perception.

The following figure highlights the proposed steps towards becoming customer centric.

**Figure 3.2 Proposed processes to becoming customer-centric**

![Diagram](source: Adapted from Burmann et al., 2010)

Burmann et al. (2010) have proposed the following three stage step towards attaining customer centricity. The first step towards customer centricity is customer segmentation and devising segmentation strategies. The proposed segmentation should be based on two parameters, namely the financial value of the customer and secondly, the needs and requirements of the customer. This segmentation will point to customers who require focus culminating in differentiated product and service offerings. The second stage would involve communicating the customised offerings to the
customer and aligning the organisations marketing systems towards getting this done. The third step involves organisational culture change starting from the top management support followed by communication to the entire organisation about the competitive advantages of customer centricity. A continuous review of every product should be done to assess profitability.

Hamilton (2004) has also suggested six ‘building blocks’ that would enable full scale transformation of a company’s operating model and the priorities of the executive agenda. Success in creating a customer-centric organisation lies in the ability of the organisation to shed the old product centred culture and moving towards focusing on the customer. The first step is moving beyond event oriented marketing and developing a holistic and continuous view of each customer’s evolving life cycle like marriage, home ownership and parenthood. Mining the existing data will help to identify these customers.

The second step is developing a solution mindset. A fundamental shift in the mindset is required from selling products to solving problems. Solutions to replace products as the basic element of customer value proposition. The organisation will have to move from ‘off the shell products’ to customised products, tailor- made solutions for customers’ specific needs. The third step is advice bonding. Customer-centric organisations engage cost effectively in dialogue with customers that start long before a product or service is purchased and continues long after the sale.

Step four is ‘can do’ customer interface. The organisation enables the frontline staff to tailor solutions at the point of customers’ contact. This is normally hindered by top down decision making on pricing, marketing and innovation which are dictated top down. If front-line staff were enabled to tailor-make products at the point of contact with the customer it would hasten the move towards customer centricity.

Step five is ‘Fit for purpose’ business processes. One of the hindrances to attaining customer centricity is where there are increased costs due to organisational complexities. The proposal here is that basic and stable products and services should be
channelled through the most efficient least expensive business streams. More complicated and less predictive offerings should be diverted through more customised streams as this would help to minimise costs.

The last step is the collective, cross functional effort. The organisation must embrace a new culture of collaboration. Tailoring products to the needs of the customer requires a level of cooperation across functions, across product and service lines and across company boundaries that is unprecedented and will be a little uncomfortable. Companies must build linkages across their organisations and employees at every level in every division will need to understand clearly the customer’s needs to make the end of the customer’s experience streamlined and satisfying.

3.9 Conclusion

This chapter has explored the various aspects related to customer-centricity and the role of CRM in enhancing the centricity concept in the retail banking scenario. From the discussion in this chapter, it is clear that organisations increasingly find themselves in the position of having to respond to customers’ comments and complaints and their responses have an effect on customer satisfaction. Customers on the other hand often seek to redefine the meaning of brands as they share their knowledge about product usage reducing the traditional role of marketing of products and promoting the power of ‘word of mouth’.

As banks endeavour to satisfy their customers, the concepts of customer-centricity need to be factored into the banks’ management strategies to ensure customers’ satisfaction and retention. Centricity is the glue that is needed to keep the customer from switching to the competition. Banks should be preoccupied with meeting the needs of the customers, desires and requests in order to increase their satisfaction.

The following chapter will look at literature relating to Customer Relationship Management which marketing theorists have recommended as a tool that would enable banks to create lasting bonds with their customers and be in a position to reap max-
imum benefits from those relationships. Customer-centricity is just the beginning of understanding the customer and their needs. Long-term stickiness to banks will only be ensured through a deliberate relationship program offered by the CRM concept. Given the preceding chapters that have highlighted key concepts relating to customer satisfaction, the following chapter offers a solution to the banks on what they need to do in order to enhance customer satisfaction and retention levels.
CHAPTER FOUR: CUSTOMER RELATIONSHIP MANAGEMENT

4.1 Introduction

Customer Relationship Management (CRM) is a concept that came to the fore in the 1980’s with the aim of limiting the outflow of the current customers by directing high value customers to potential products which they would find attractive from a multi product service offering array (Sciglimpaglia and Ely, 2006). The Customer Relationship Management concept as discussed in this study forms a linkage between the Customer satisfaction gaps explored in the previously in the study pages and the possible remedies to them from the literature reviewed.

4.2. Customer Relationship Management

Eid (2007) postulated that the use of traditional marketing approaches using macro and micro segmentation techniques that worked have been overtaken by events given the unpredictability of customer buying behaviour, traditional marketing especially information rich sectors like banks is giving way to one-on-one marketing in order to individualise the marketing effort.

CRM was necessitated by the fact that customers differ in their preferences and purchasing habits and if this were not so, there would be no need for CRM. Mass marketing and mass communication would work just fine (McKim and Hughes, 2003; Xu et al., 2003). Customer Relationship Management (CRM) emphasises the collection of all possible information about customers who come into contact with a company and making use of that information for the benefit of the company. It seeks to understand how to generate profitable customers who enter into long-term relationships with organisations (Steffes, Murthi and Rao, 2008). Although Customer Relationship Management is widely accepted as a business approach, there is no universally accepted definition for it. Swift (2003) defined CRM as an “enterprise approach to understanding and influencing customer behaviour through meaningful communications in order to improve customer acquisition, customer retention, customer loyalty
and customer profitability”. Parvatiyar and Sheth (2000) viewed CRM as “a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value of the company and the customer”.

Defining CRM is required for developing a clear understanding and vision of what CRM means to an organisation while the lack of such clear understanding is considered as a barrier to successfully implement CRM (Xu and Walton, 2005). This is significant when considering the wide range of CRM definitions (Richard and Thirkell, 2007; Marconi, 2005; Winer, 2007). An increasing number of researchers and practitioners from the fields of Marketing and Information Systems (IS) have contributed to defining the CRM concept. CRM is claimed to be as the new paradigm of Marketing (Chen and Popovich, 2003; Payne and Frow, 2005; Roy, 2008).

Searching through CRM history, the term evolved from the Sales Force Automation (SFA) market, which was born of contact management (Chase, 2000). The main object of contact management was to give salespersons a place to save information such as the addresses and contact numbers of their customers. Later, it came to the knowledge of business organisations that this information can be used for the entire organisation and not only for salespersons, which led to the emergence of CRM. Another trace of CRM’s origins can be found in relationship marketing. Plakoyiannaki and Tzokas (2002) indicated that practitioners and academics suggest that CRM provides an actual platform for the operational manifestation of relationship marketing. On the other hand information system researchers Chen and Popovich, (2003), Brown (2000) and Jie and GuangQuan (2007) also argued the CRM definition. Although the view of possible convergence towards a common definition for CRM exists (Chan, 2005; Wang, 2003), different approaches are carried out to define CRM ranging from narrow definitions (technical) to broad definitions (strategic) (Payne and Frow, 2005). Along this continuum of definitions, there were different attempts to define CRM as a synonym for relationship marketing (Greenberg, 2004; Zheng, 2000; Kumar and Reinartz, 2006; Buttle, 2004; Liu, 2007), integrating CRM components, namely Process, Technology and People (Morrel and Philonenko, 2001; Khalifa, 2004), and interaction between human and process (Menon and O’Connor, 2007).
This broadness in defining CRM and the differences in perspectives regarding it could be a result of a new emergence of the concept into two fields of study, Marketing and Information Technology (IT) (Chan, 2005). From a technical point of view, Chen (2004) as well as Brown and Chin (2004) defined CRM as a methodology that heavily employs certain information technology such as databases and the internet to leverage the effectiveness of the relationship marketing process. In support of this point of view, Raman and Pashupati (2005) referred to CRM as utilising Information Technology (IT) in implementing relationship marketing strategies.

In order to illustrate the emphasis on the technology element of CRM, Woodcock, Starkey and Stone (2002) defined CRM as an IT enhanced process that integrates a company’s competences to deliver superior profitable customer value to existing and potential customers. Analysing previous examples of technical definitions for CRM, results in finding a lack of holistic overview of CRM which could lead to minimising or even neglecting other aspects of CRM such as strategy and business processes. Consequently, such an approach will eventually contribute to the limitation of CRM outcomes.

On the other hand, the wider definition of CRM concentrates on a strategic orientation of CRM. Gray and Byun (2001) have defined CRM as a primarily strategic business process issue rather than technology which consists of the following components: customer, relationship and management. Agreeing with the previous view, Brown (2002) referred to CRM as a key competitive strategy that is needed to focus on customers’ needs and to integrate an organisational customer-facing approach. Reinartz and Chugh (2003) have provided support to the strategic definition of CRM. They have defined CRM as “the strategic process of shaping the interactions between a company and its customers with the goal to maximise the lifetime value of customers for the company as well as to maximise satisfaction for the customer”. Despite the preferred approach of not considering CRM just a technology, the broad view of CRM also has some negative aspect of resulting in a confusion that overlooks critical issues in implementing CRM such as the importance of IT and business process.
For the scope of this research, the CRM definition covers the major aspects of CRM and focuses on its objectives, as the ability of CRM to achieve its objectives is highly dependent on its clear definition (Payne and Frow, 2005). Parvatiyar and Sheth (2000) pointed out that for an emerging management discipline it is important to develop an acceptable definition that encompasses all facets so as to allow a focused understanding and growth of knowledge in the discipline.

Payne and Frow (2005) as well as Chan (2005) were of the view that CRM is a strategic approach that integrates process, people and technology cross functionally to understand an organisation’s customers, improve stakeholder value and deliver profitable and long-term relationships with customers. Therefore, success factors for CRM lie in the scope of managing, integrating, and controlling CRM components. Customer Relationship Management has grown rapidly (Buttle, 2004). Regardless of their size, businesses have been motivated to adopt CRM to create and manage the relationship with their customers more effectively in an attempt to develop comparative advantage. Various empirical studies have demonstrated that an enhanced relationship with customers can ultimately lead to greater customer loyalty and retention, and profitability (Payne and Frow, 2005). In addition, the rapid growth of the internet and its associated technologies has greatly increased the opportunities for marketing and has transformed the way relationships between companies and their customers are managed (Bauer, Grether and Leach, 2002). According to Singh (2006); Xu and Walton (2005), CRM as a business strategic tool could help organisations achieve a variation of objectives. CRM consists of helping an enterprise to:

1. Enable its marketing departments to identify and target their best customers; manage marketing campaigns with clear goals and objectives;
2. Generate quality leads for the sales team; assisting the organisation to improve telesales;
3. Enhance accounting, and sales management by optimising information shared by multiple employees; allowing the formation of individualised relationships with customers, with the aim of improving customer satisfaction and maximising profits; and
4. Identify the most profitable customers and provide them with the highest level of service, and provide employees with the information and processes necessary to know their customers, understand their needs, and effectively build relationships between the company, its customer base, and distribution partners.

According to Meyer and Schwager (2007), CRM benefits include enhanced organisational ability to retain and acquire customers through:

1. Maximising customers’ lifetime value;
2. Improving service at lower costs; and
3. Integrating marketing, sales, customer service, and the supply chain functions of the organisation to achieve greater efficiencies and effectiveness in delivering customer value.

CRM is about managing customer knowledge to better understand and serve them (Roy, 2008). It is a concept that places the customer at the centre of the organisation. Some researchers like Roman (2003) and Roh, Ahn and Han (2005) have stated that as companies compare the large expectations of CRM and the actual results of its implementation in many organisations, an overall picture of disappointment emerges as the CRM has not fully succeeded in creating lasting customer relationships. They realise that in order to develop successful, long-term relationships with customers they should focus on the ‘economically valuable’ customers, while keeping away and eliminating the ‘economically invaluable’ ones.

Parvatiyar and Sheth (2002) have posited that customers have always been the main concern for businesses all over the world. From a marketing perspective, customers are considered to be the cornerstone of an organisation’s activities. This importance was reflected in an increased need for business organisations to integrate customer knowledge in order to build close corporative and partnering relationships with their customers. Customer Relationship Management is about increasing the value of an organisation’s customer value by changing the organisation’s behaviour
to a customer-based approach (Roh, Ahn and Han, 2005). Banks are highly vulnerable to a loss of customers to rival banks due to competition.

4.3 Customer Relationship Management and Satisfaction

Customer Relationship Management has become a favourite theme for numerous reports and studies in the marketing literature and has been regarded as the new paradigm in marketing (Avlonitis and Panagopoulos, 2005; Chen, 2004; Chan, 2005; Payne and Frow, 2005). Paravatiyar and Sheth (2000) see Customer Relationship Management (CRM) as a “comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the organisation and the customer”. CRM aims at achieving customer intimacy (Reynolds, 2002). The customer is the focus in CRM.

CRM is a holistic strategy that can help banks to become customer oriented and implement customer focused strategies which in turn will help them build long lasting relationships with customers and increase profits with the entry of competition (Menon and O’Connor, 2007). They have further argued that retail banks need to focus more strongly on components of their CRM strategies that will generate customer effective commitment and lead to an increase in customer retention, share of wallet and advocacy. They recommend that banks should continually mine their databases and identify customers in terms of their levels of profitability and longevity and deliver products and services appropriate to each customer. Such strategies as they have point out will increase effective commitment and retention. CRM encompasses the strategies, processes and Information Technology employed by banks in relation to the use of customer data to gain competitive advantage (Roy, 2008). Customer Relationship Management is an important tool for enhancing customer-centricity. It involves the integration of marketing, sales, customer service and the supply chain functions of the organisation to achieve greater efficiencies and effectiveness in delivering customer value. Payne and Frow (2005) as well as Bailey (2005) further view it as a strategic approach concerned with creating improved shareholder value.
through development of appropriate relationships with key customers and key segments the markets.

Raman and Pashupati, (2004) have posited that Customer Relationship Management focuses on building, maintaining and constantly improving not only the product but also the relationship with the customer. CRM is concerned with specific interventions which involve up-selling or cross-selling. As a management tool, CRM enables organisations to identify, satisfy and retain customers profitably by leveraging information technology. In addition, CRM helps to link all the functional business units of the organisation together to operate as a single cohesive unit. This helps to enhance communication within the organisation as well as with the external customer (Padmanabhan and Tuzhilin, 2003). CRM will not only give banks a competitive edge but it has become part of a mainstream business activity. CRM increases the economic worth of a business by improving the lifetime value of its customers (Brown, 2000). Successful CRM strategies encourage customers to buy more products, stay loyal for longer periods, or communicate more effectively with an organisation. CRM solutions based on robust/strong and effective customer analysis can help organisations identify and take advantage of winning business strategies (Greenberg, 2004).

CRM within banks needs to focus on growing customer value-adding relationships enhancing the long-term flow of profits to the bank (Kracklauer and Mills, 2004; Brown, 2000). According to Szmigzin (2003) and Parvatiyar and Sheth (2000) organisations engage customers in long-term partnerships with the hope that they will get to know their products and services better and respond in a mutually beneficial way. Customers engage in banking relationships to reduce choices by being loyal. Enhancing customer-centricity through the use of CRM systems is a valid business concept with benefits for both the organisation and its customers. However, it has been hyped and misused to the point where many tend to see the tools and technology as ends in themselves and under estimated. CRM technology is available to help manage customer information and knowledge though some researchers have criticised the CRM technology as not delivering value (Raman and Pashupati, 2004). Further, the two researchers noted that many CRM implementations have faced se-
rious difficulties or even outright failures and have been accused of messing up existing good relationships.

According to Freemantle (2004) four out of five CRM projects either fail outright or do not deliver significant business benefits. Amongst the reasons why CRM fail include: Lack of a clear business case and objectives, lack of active sponsorships, lack of organisational readiness for CRM, an unrealistically wide project scope, insufficient change management resources, no buy-in from end users and resistance to organisational change.

Brown (2002) has claimed several advantages of CRM:

1. It reduces advertising costs;
2. It makes it easier to target specific customers by focusing their needs;
3. It makes it easier to track the effectiveness of a given campaign;
4. It allows organisations to compete for customers based on service not price;
5. It prevents overspending on low value clients and under spending on high value ones;
6. It speeds the time it takes to develop and market the product and the customer relationship cycle; and
7. It improves the use of customer channels thus making the most of each contact with the customer.

Xu and Walton (2005) further give the following reasons as reasons why companies use CRM, namely:

1. To improve customer satisfaction levels of the customer;
2. To retain existing customers;
3. To enhance the customer lifetime value;
4. To provide better strategic information to sales, marketing and finance;
5. To attract new customers; and
6. To achieve cost savings.
These reasons are true for banks as well.

4.4 Customer Relationship Management and Loyalty

The Customer Relationship Management concept has endeavoured to create loyalty with the customer through the mining of data that enables the organisation to anticipate customer needs as their demographics change (Coltman, 2007). While there is enough empirical evidence to suggest that customer-centricity has a strong impact on the survival and success of banks, banks cannot afford to take too much comfort in that. The increasing diversity in demographics - even within a local region is opening up a new world of challenges (The Banker, 2008). Customer service and customer satisfaction are essential to commercial banks.

By adopting a strategic approach of customer satisfaction through Customer Relationship Management (CRM), service organisations such as banks can retain their best and most profitable customers (Customer Relationship Management, 2004). CRM programs help managers identify and target their most valuable customers for resource allocation to achieve organisation goals (Dorch, Carson, Raymond and Ranson, 2001). The ultimate goal as earlier mentioned is to achieve deeper customer relationships where the organisation becomes indispensable to its customers (Van der Merwe, 2004).

In this ever-increasing competitive, complex and challenging business environment, banks need to be determined to attract and retain customers, which will be attained only if high levels of service quality are delivered. Support and loyalty from customers are ensured through acceptable customer service that is delivered. Retail banking is one of the most competitive industries as far as customer service is concerned. Customers are faced with an array of financial services and expect customised offerings, value, ease of access and personalisation from their financial services providers.
These market forces lead to one overwhelming strategic imperative, namely a customer-focused strategy. Business success is defined by an organisation’s ability to build and sustain long and profitable relationships with its customers (Customer Relationship Management, 2004). It is a well established fact that the best customer service can be rendered through the implementation of relevant CRM strategies. However, Customer Relationship Management (CRM) systems have their own shortcomings. Payton and Zahay (2003) have argued that while satisfying a considerable need to better understand the customer, CRM systems fall short of enabling enhanced customer-centricity. CRM systems are unprecedented in their ability to capture operational customer information and enable organisations to manage and use that information across a range of customer touch points. Yet they capture the information predominantly in ways defined by the organisation (and the CRM system’s data structures), rather than by the customer. Consequently, customer insights and information sharing are rarely captured in CRM systems.

Coltman (2007) has warned that simply gathering information through sophisticated CRM systems and giving insight through complex human skills will not have any impact on the business if no action is taken. He has further argued that managers in the highest performing banks remain sceptical of the potential for CRM to improve productivity and competitive standing. Thus CRM suffers when it is poorly understood, improperly applied and incorrectly measured and managed. Jones and Sasser (1995) propose three measures of loyalty that could be used in segmentation by loyalty:

1. Customers’ primary behaviour - recency, frequency and amount of purchase;
2. Customers’ secondary behaviour - customer referrals, endorsements and spreading the word; and
3. Customer’s intent to repurchase - is the customer ready to repurchase in the future.
4.5 Customer Relationship Management in Retail Banking

According to Menon and O’Connor (2007), companies are capitalising on customer-centric opportunities by managing the customer experience which represents all of an individual customer’s interactions with a company and its brand over time. Customers view a company as a single entity, not as a collection of departments or offices. Regardless of where (channel), when (across the entire customer lifecycle) or with whom (sales, marketing, service, billing, management) an interaction occurs, the customer expects that interaction to pick up exactly where the last one left off. Managing customer experiences to build profitable relationships is the path to differentiation and growth (Hughes, Foss and Stone, 2004).

CRM in banks is not just simply a method used to gain competitive advantage but has become a necessity for survival (Buttle, 2004). Owing to the challenges facing the banking industry banks need to focus on attracting and retaining customers. Some of the notable benefits that can result from close client relationships are higher profitability and levels of service quality (Rootman, 2006). Rootman (2006) further elaborates that this happens in two stages. The first stage is where the banks spend time attracting the customers and building, managing and maintaining the relationships over time for the mutual benefit of both. This stage concentrates on marketing to attract and establish and create a customer relationship for the long-term. In the second stage, the bank tries to maintain and enhance this relationship in order to maintain the customer.

Customer Relationship Management (CRM) in banks seeks to understand how to generate profitable customers who enter into a long-term relationship with a bank (Steffes, Murthi and Rao, 2008). CRM is not simply a method used by banks to gain competitive advantage; it has become a necessity for survival (Buttle, 2004; Khiralallah, 2001). CRM is a holistic strategy which can help banks to become customer-oriented and implement customer-focused strategies which in turn will help them build long lasting relationships with customers and hence increase their profits.
CRM in the banking industry is therefore of strategic importance (Colgate and Lang, 2001). Retail banks need to focus more on components of their CRM strategies that can generate customer affective commitment and lead to an increase in customer retention, share of wallet and advocacy. The benefits to be realised by the effective implementation of CRM include increased revenue and profitability, improved customer and employee satisfaction and loyalty and increased operational efficiencies (Coltman, 2007).

CRM starts with the use of technology to classify customers. Various ways of classifying customers exist such as the intelligent classification method suggested by Drafke and Kossen (2002) which would be useful for banks. They have further argued that customers have both static characteristics and dynamic behavioural features and by using both kinds of data to conduct comprehensive analyses banks can enhance the reasonability of customer classification. They suggest the use of such models as hybrid genetic algorithms segment. This would be an improvement from the traditional methods where demographics were used. Buttle (2004) argued that technological advancements in banks support CRM management.

Studies in Britain demonstrated that CRM as a marketing strategy enables one-on-one marketing that is key for the identification of customer needs and providing for them (Roy, 2008). The UK financial services industry has undergone a period of consolidation through mergers and acquisitions and has also been subject to a variety of other pressures like competition and inflation. The heart of financial services marketing is still interested in knowing what can attract and retain customers, keep them and develop more businesses with them cost effectively (Roh, Ahn and Han, 2005).

The financial services industry has adopted CRM as a sustained means that will enable them to capture the necessary parameters of their customers and create a better understanding of these parameters to enables them to consolidate their customer databases and build a more complete picture of their customers (Lin and Su, 2003). Hughes, Foss Stone and Cheverton (2004) have posited that traditional CRM
measures do not calculate or provide insight into the value created within the customers’ relationships. Bank customer profitability measures must evolve and in several aspects move beyond simple cost accounting measures in order to provide insight into the customers’ value. Doing so can link CRM initiatives with meaningful profit information so that customer value can be fully optimised. Menon and O’Connor (2007) have further argued that CRM will generate customer affective commitment and lead to an increase in customer retention.

Payant (2004) highlighted that bank executives were dissatisfied with the returns received on their large investments in CRM technology. The findings pointed out to shortcomings found in many bank CRM initiative roll-outs and lack of meaningful insights in the use of customer information for the profitability of the banks. Yu (2007) posits that there are not many reports on the implementation of CRM systems and how to relate the CRM results to enhance banks’ competitiveness. Banks in China are using CRM to cultivate a group of satisfied and loyal customers to sustain the market competition (Chan and Quazi, 2002).

In attempting to understand the implementation of CRM programmes, it must be borne in mind that economies differ in terms of their level of development. Two economic criteria can be used in this economic analysis; population size and per capita income have been incorporated into the calculation of per capita GNP and per capital GDP (Hough, Neuland and Bothma, 2003). This analysis makes it possible to categorise economies as being developed, developing and less-developed (Hough et al., 2003). At times, CRM project implementation usually fails and some of the root causes of CRM failures include CRM being viewed as a technical, not a business problem, CRM being driven from the top down approach, lack of senior management involvement, not targeting the areas of highest adoption, CRM being driven by the IT organisation and not the business leaders and trying to do too much at once (Buttle, 2004).
4.6 CRM in Developed Economies

Developed economies (such as the USA and Japan) are characterised by political stability, highly educated and literate populations, high levels of innovation and entrepreneurship as well as high levels of both industrial and information technology (Hough et al., 2003). For example, mass customisation of goods and services, which often is achieved through the direct collaboration between the manufacturer and customer, has been facilitated by developments in Information Technology (IT) (Brown, 2001; Tiwawna, 2002).

In developed countries, IT and marketing departments work closely to implement CRM efficiently (Dyche, 2002). They focus on the evaluation of the critical satisfaction dimensions and the determination of customer groups with distinctive preferences and expectations. The customer relationships of new technology-based companies were studied by Cook and Hababou (2001). They were interested in total sales activities, both volume-related and non-volume related. They noted that managing relationships with customers (especially with employees, channel partners and strategic alliance partners) was critical to the company’s long-term success. It was also emphasised that customer relationship management based on social exchange and equity significantly assists the company in developing collaborative, cooperative and profitable long-term relationships.

Khirallah (2001) argues that the use of CRM to identify profitable customers and categorise customers according to their value has allowed some banks to gain a competitive edge. Some examples cited in literature include the National Australia Bank in Australia, Bank of Montreal in Canada and Capital One Bank in the USA (Monir, 2008). These banks have invested in complicated systems and are involved in elaborate CRM programs. However, he contrasts this with the situation in the UK where banks continue to offer substandard service in spite of heavy investments in CRM programs and technology. Reinartz and Kumar (2002) have posited that CRM in some of these countries has only succeeded in alienating long-term customers and employees. Rigby, Reichheld and Schefter (2002) also warn that CRM can fail to
meet initial expectations of companies implementing them if CRM is erroneously linked with technology based solutions thus failing to appreciate the importance of customer relationship value. This view is further supported by Kumar and Reinartz (2006) and Coltman (2007) who posit that mere gathering of information through sophisticated systems will not have any impact if no action is taken. Further, that managers in the highest performing banks remain sceptical of the potential of CRM to enhance productivity and competitive standing. CRM suffers the risk of failing to meet initial expectations of companies implementing them. Coltman (2007) further argued that managers in high performing banks remain sceptical of CRM’s potential to improve productivity and competitive standing for the companies.

4.7 CRM in Emerging Economies

Hough et al. (2003) described less-developed economies (such as Bulgaria, Bangladesh and Ethiopia) as having political instability (sometimes political anarchy), government inefficiency and low standards of living and low levels of economic wealth. Further Hough has described an emerging market (or developing economy) as one that is in the process of evolving to becoming developed (i.e. higher income). Kenya can be placed in this category. An empirical study carried out in India on the implementation of CRM in banks demonstrated that the implementation of CRM and penetration of the concept in the financial services industry in particular has not been very impressive (Rootman, 2006; Chan and Quazi, 2002). The Indian banking industry is going through major changes as a consequence of economic reforms, technological developments and liberalised markets which have revolutionised the sector (Wang, 2003). The banking sector has been hoping to use CRM as a competitive tool to create customer loyalty and retention. Liu (2007) reported his empirical findings in China which demonstrates that the CRM system has been adopted by some Chinese banks as an instrument to improve customer services. Some banks have constituted CRM implementation and plans and use CRM as a competitive tool for their competitive advantage. However, Wang (2003) noted that are not many reports on the implementation of CRM systems and how to relate the results of CRM knowledge management to the banks’ competitive advantage. Banks in China have embraced
CRM in order to satisfy customers and retain them and also in order to sustain the market competition. In China, corporate customers have high expectations which the banks have not been able to meet. The weakness mainly lies in the inability of banks to analyse corporate customer data identifying their needs and meeting them. This has hindered the banks from forging good relations with their corporate customers (Wang, 2003; Zheng, 2000). This gap will be filled once the banks embrace the use of CRM.

Studies carried out in Taiwan showed that banks in Taiwan are embracing calls for changes in the way they carry out business. Though the major beneficiaries of the CRM explosion have been banks, there is a clear absence of information and support for it in Taiwan (Liu, 2007). Banks in Taiwan are also disadvantaged due to a lack of CRM technology and they also lack professional support. CRM in the Taiwanese banks is not just about managing customers and monitoring their behaviour, it has the potential to change a customer’s relationship with a company and increase revenue (Kumar, 2002). Knox, Maklan, Payne, Peppard and Ryals (2003) perceive CRM as a strategy that aims to improve stakeholder value by developing appropriate relationships with key customer segments.

It is evident that banks use CRM as a strategic tool through which they can segment their customer portfolios and needs, and come up with products to meet those needs thus enhancing customer satisfaction and retention. CRM enables banks to retain the loyalty of their customers and is not about managing customers and maintaining their behaviour only. It has the potential to change a customer’s relationship with the bank and increase revenue (Dyche, 2002). CRM rides high on IT infrastructure and specialised software and enables banks to further the automation process. Researchers agree that CRM as a strategy has enabled banks to build stronger and long lasting relationships with their customers (Chen and Li, 2006; Blery and Michalakopoulos, 2006).

Studies by one of the largest banks in Australia showed that banks use sophisticated CRM models to segment customers and maximise each customer’s value (Rootman,
Empirical results from studies done in South Africa to ascertain the effectiveness of CRM strategies showed that CRM strategies can be improved by the knowledge and attitude of staff as they form a key contact point with customers (Buttle, 2004). The studies recommend that staff should display a positive attitude towards their working environment and towards the customers. They argue that banks should motivate their employees and invest in their training as these two components are likely to influence their CRM positively (Rootman, Tait and Bosch, 2008). A similar study in one of the largest banks in Greece showed that CRM can greatly improve efficiencies and offer a focal point for all customer contacts. Improvement in efficiencies was evident while the bank was able to offer specialised products to specialised groups (Blery and Michalakopoulos, 2006).

4.8 Successful Implementation of CRM

Combined effects of technological change and increasingly sophisticated shopping and banking behaviour are profoundly altering the financial services environment. However, financial services players including banks have substantial ability to capture data and develop very sophisticated segmentation schemes and chances to build interactive customer relationships facilitating one-on-one marketing. Moller and Halinen (2000) as well as Xu and Walton (2005) have postulated that CRM improves a company’s ability to understand the current needs of their customers, previous behaviour and future behaviour.

There have been attempts to identify crucial success factors for CRM implementation. Critical factors would refer to where things must go right for the business to flourish (Eid, 2007). They could also be regarded as activities and practices that should be addressed in order to ensure successful implementation. These practices should be nurtured and developed (Avlonitis and Panagopoulos, 2005; Bhaskar, 2004; Chan, 2005). All the above agree that if companies identify these critical factors that affect the implementation process and address them, only then can the benefits of CRM be realised and failures avoided.
Bose (2002) has supported this view and argued that correct planning for training sessions, management support and staff awareness programs are important for CRM implementation. Dubrovski (2001) further argues that successful CRM implementation requires enterprise-wide integration of processes and a change in management focus and business performance metrics.

Eid (2007) postulated that a successful CRM implementation includes strategic related factors, tactical factors and operational factors. The strategic level would involve the top management who should embrace CRM knowledge and proactively diffuse it to change the organisation culture internally and set goals for it. Individual employees thus become building blocks of customer relationships. At the tactical level, there should be medium range planning of CRM specific organisational issues. At the operational level, a realistic CRM implementation schedule, enterprise performance metrics for CRM, personalisation, customer orientation and data mining play a critical role in successful implementation of the CRM system. Chen and Popovich (2003), Jansson and Chestnut (2008), Johnson (2004) and McKenzie (2001) have argued that it is wrong to view CRM project implementation as an IT project.

CRM implementation is complex and difficult. It can cause vast changes that need to be managed carefully to get full advantage of CRM software. Salmen and Muir (2003) also support the use of technology in CRM. In their empirical studies covering 45 banks in Germany, Austria, Switzerland and the USA, their findings pointed to the fact that the use of an electronic Customer Relationship Management system is amongst the key factors that influences the success of CRM implementation. Chan (2005) noted that an effective CRM strategy has a critical role to play in the CRM systems implementation if the appropriate training is provided. The top management team support has also been identified as an important factor in helping to integrate previous existing systems with the CRM plan (Parvatiyar and Sheth, 2000).

Bose (2002) also agreed that correct planning for training sessions, management support and staff awareness programmes are important for CRM implementation. Human intervention or employee involvement and the role of technology have been
cited as enablers and not drivers of CRM implementation. Organisational culture is critical in the implementation of CRM (Hart, Heskett and Sasser, 2002; Jutla, Craig, and Bodorik, 2001; Al Mashari and Zairi, 2000). Umashankar (2001) also argues that software selection may also play a critical role in the success of CRM marketing. Other factors as cited by Bose (2002) include a CRM implementation schedule, benchmarking and customer satisfaction.

Chen and Popovich (2003), Ocker and Mudambi (2003), and Dubrovski (2001) indicated that successful CRM implementation requires an enterprise-wide integration of processes and a change in management focus and business performance metrics. Chan (2005) argued that an integrated business model that ties together business organisation processes, information and technologies along the entire value chain is critical to the success of CRM strategies. Coltman (2007) argued that the attitude of the top management is critical in the implementation of CRM and that CRM implementation can fail where the top management remains sceptical of the CRM to improve productivity and competitiveness of an organisation.

Dibb (2001) describes the CRM concept as one where customers are grouped on the basis of product needs and buyer behaviour as recommended by Kotler (2000) to attain the segment of one. ‘One’ in this situation refers to a group of customers with similar needs. In one group, the needs are similar. From this classification, marketing segmentation is made possible through product and marketing offers geared towards individual needs. This is not to say that each individual receives a unique offer; instead the emphasis is what can be referred to as mass customisation. Dibb (2001) advocates a four step process to attain the segment of one as indicated in Fig 4.1.

Dibb postulates that the identification of customers requires sophisticated tools whilst customising for the customer calls for a demonstration of lasting advantages that the customer is likely to get from the bank. Differentiation leads to the development of profiles and customer characteristics and requirements. It allows businesses to capitalise on different levels of customer value thereby enabling the bank to channel the
appropriate investments for highest value customers if the differentiation matrix is profitability.

**Figure 4.1 Process of Attaining the Segment of One**

![Diagram showing the process of attaining the Segment of One]

Source: Adapted from Dibb, 2001.

### 4.9. Conclusion

By using CRM banks can improve their profitability, gain a loyal customer base as well as customise costs. CRM influences the level of service quality in banks, thus positively affecting customer satisfaction and retention in the banks. It also enables banks to leverage customer information from their databases to achieve customer retention while enabling the banks to cross sell new products and services. The literature reviewed above has strong indications that CRM enables banks to leverage information from their databases to achieve customer retention. It also enables banks to cross sell new products and services.

The following chapter will examine the theoretical constructs of customer satisfaction and retention. The Theory of Reasoned Action (TRA) as well as the Service Quality model (SERVQUAL) will be examined.
CHAPTER FIVE: THEORETICAL CONSTRUCTS OF CUSTOMER SATISFACTION AND RETENTION

5.1 Introduction

A theory is a set of interrelated constructs, definitions and propositions presenting a systematic view of phenomena by specifying relations among variables, with the purpose of explaining and predicting the phenomena (Kerlinger, 2002). This study examines various applicable theories and attempts to explain why customers respond differently to various stimuli (for the purpose of this study, service delivery by Kenyan banks) thus affecting their levels of satisfaction and impacting on the loyalty and retention to that particular bank. Key theories discussed in this chapter include: the Theory of Reasoned Action (TRA), limitations of the TRA model, consumer power, the Service Quality Model, the Customer Service Perception Satisfaction Model, consumers’ buying decisions and satisfaction.

5.2 The Theory of Reasoned Action (TRA)

The Theory of Reasoned Action (TRA) started in the form of a theory of attitudes, which led to the study of attitude and behaviour. The theory was, “developed largely out of frustration with traditional attitude-behaviour research, much of which found weak correlations between attitude measures and performance of volitional behaviours” (Hale, Householder and Greene, 2003). The components of TRA are three general constructs: Behavioural Intention (BI), Attitude (A) and Subjective Norm (SN). The theory suggests that a person's Behavioural Intention depends on the person's Attitude about the Behaviour and Subjective Norms (BI = A + SN). If a person intends to behave in a particular manner, it is likely that the person will behave in that manner. Furthermore, a person's intentions are themselves guided by two factors: the person's attitude towards the behaviour and the subjective norm. Behavioural Intention measures a person's relative strength of intention to perform behaviour. Attitude consists of beliefs about the consequences of performing the behaviour multiplied by the person’s evaluation of the consequences (Miller, 2005). Subjective Norm
is seen as a combination of perceived expectations from relevant individuals or
groups along with intentions to comply with these expectations. In other words, "the
person’s perception that most people who are important to him/her think he/she
should or should not perform the behaviour in question" (Fecikova, 2004). A person’s
volitional (voluntary) behaviour is predicted by the attitude towards that behaviour
and how the person thinks about how other people would view them if they per-
formed the behaviour. A person’s attitude combined with subjective norms form their
actual behavioural intentions.

Fecikova (2004) says that attitudes and norms are not weighted equally in predicting
behaviour. Depending on the individual and the situation, these factors have different
effects on behavioural intention. Thus, a weight is associated with each of these fac-
tors in the predictive formula of the theory. For example, one might be the kind of
person who cares little for what others think. Accordingly, if this is the case, subjec-
tive norms would have little weight in predicting an individual’s behaviour (Miller,
2005).

The TRA assumes that individuals are usually rational and will consider the implica-
tions of their actions “before they decide to engage or not engage in a given beha-
vior” (Fecikova, 2004). According to the TRA, presented in Figure 5.1, Behavioural
Intention is the immediate antecedent of an individual’s behaviour. The TRA posits
that most behaviour of social relevance is under volitional control and is thus predict-
able from intention. The measure of intention has to correspond with the behavioural
criterion in action, target, context and time and intention does not change before the
behaviour is observed.
The concept of customer satisfaction can be explained by the Theory of Reasoned Action (TRA) which is concerned with the determinants of consciously intended behaviour (Fecikova, 2004, Davies, Foxall and Pallister, 2002). Since 1967 TRA has been developed, tested and used extensively. It has been a success in predicting and explaining behaviour across a wide variety of domains (Davies et al., 2002). The TRA is based on the assumption that consumers behave rationally and that they collect and evaluate systematically all of the available information. Additionally, TRA assumes that people also take into account the effects of their possible actions and based on this reasoning make a decision whether or not to take action (Fecikova, 2004).

Customers would use banking products if they have a feeling that some positive benefits (outcomes) would accrue from such use (Fecikova, 2004). The Theory of Reasoned Action or Behavioural Intentions is another widely accepted and well-developed expectancy-value theory. For Fecikova (2004), behaviour is a result of intentions. Intentions, in turn, are functions of one’s attitudes to the behaviour in question and one’s subjective norms. Attitudes result from one’s beliefs (expectations) that behaviour will lead to a particular outcome (its subjective probability) and one’s evaluation of that outcome (its subjective utility). The subjective norms are a
combination of a person's beliefs of how significant others feel about the normative appropriateness of the anticipated behaviour and the individual's decision as to the value of those predicted norms.

5.3 Limitations of the TRA Model

The Theory of Reasoned Action (TRA) is a general model and as such, it does not specify the beliefs that are operative for a particular behaviour (Davies et al., 2002). Thus, the researchers using TRA must first identify the beliefs that are important for subjects regarding the behaviour under investigation. Furthermore, TRA deals with the prediction rather than outcome of behaviour (Lam, Shankar, Erramilli and Murthy, 2004).

According to TRA, behaviour is determined by behavioural intentions, thus limiting the predictability of the model to situations where intention and behaviour are highly correlated. When intention and behaviour are measured at the same time it then is not a true test of the model’s power to predict the future, but rather a test of the model’s power to predict current behaviour. Davies et al. (2002) suggested that in order to test TRA, actual behaviour should be measured objectively and unobtrusively, without signalling in any way its connection to the prior intention measurement phase. A further requirement of the TRA is that behaviour must be under volitional control. Thus, the TRA is ill equipped to predict situations in which individuals have low levels of volitional control (Fecikova, 2004).

5.4 Consumer Power

Davies, (2002) asserted that consumers create a specific demand for a product and drive its success by adopting and using it. The potential threat of customer churn could exert some pressure on the bank to design a solution that fulfils consumers’ needs and satisfies them. However, consumers do not necessarily have a direct influence on the providers at an early stage of development. This is evident from bank products that were introduced to the market without an expressed demand by the consumers.
For instance, debit cards were brought to the market to limit the number of customers going to bank tellers to withdraw cash (Davies, 2002). This was mainly done to improve business processes and reduce the cost of banks (Bowen and Chen, 2001). Some research has been done on the adoption factors of consumers (Hellriegel, Jackson and Sochum, 2001). This research was mostly based on the Technology Acceptance Model (TAM) with additional constructs adapted to study e-payment elements such as security, cost, trust, mobility, expressiveness and convenience, speed of transactions, facilitating condition, and attractiveness of privacy system, quality and technology anxiety.

Consumer protection is a traditional concern of policy-makers and most financial regulators. In developing countries, the enforcement of consumer protection measures is often ineffective or lacking (Dahlberg, Mattat and Oomi, 2003). However, in societies with low financial literacy or large numbers of first time customers, the vulnerability to abuse is higher. In new markets, customer adoption depends on growing trust. The experience of consumers at the hands of a few reckless providers may cause them to distrust all similar offerings in the market. Providers of service may therefore enjoy positive externalities from creating appropriate levels of consumer protection which help create trust, leading to more rapid adoption. However, there may also be negative externalities from inappropriate protection. Once customers know they are protected and are safe, they adopt more products in their quest to enhance their level of satisfaction (Jones et al., 2003; Keaveney, 2005).

5.5 Service Quality Model

Davies, Foxall and Pallister (2002) defined quality as the degree of conformance of all the relevant features and characteristics of the product or service to all aspects of customers’ needs limited by the price and delivery that are accepted. Keiningham (2005) defines quality as fitness to use, while Lakhe (2005) extended the issue of fitness further by defining quality of a product or service as the ability of that product or service to meet or exceed its intended use as required by customers. As organisations find it harder and harder to differentiate their products, they turn to service
differentiation. Organisations seek to develop a reputation for superior performance regarding on-time delivery, better and faster answering of inquiries and quicker resolution of complaints (Kotler, 2006).

According to Wisniewski (2001), service quality can be defined as the degree to which the service delivered matches the customer’s expectation(s). Deviation from this expectation creates either a higher or a lower quality perception. Customers derive these expectations from their past experiences, word-of-mouth or communication by the organisation. Kanji (2003) observed that customers who complain are usually complaining about either a service or merchandise and that the customer’s levels of dissatisfaction may be made worse by lack of entrepreneurial spirit among employees, low level of accountability by employees and lack of customer trust. Therefore, customer feedback is important and keeps an organisation in tune with the changing demands of the customer. An organisation should aim to deliver consistently higher quality service by exceeding customer expectations. The intangible, variable and inseparable nature of services makes it difficult to evaluate the quality of service delivered to customers. Service marketing has identified the user of the service as the most critical voice in assessing service quality (Kotler and Keller, 2006). Most researchers have agreed that perceived quality is an antecedent of customer satisfaction (Szymanki and Henard, 2001) where higher quality leads to higher customer satisfaction. Bowen and Chen (2001) also reported a positive relationship between quality and customer loyalty. Other researchers have demonstrated a positive benefit of effective service recovery on customers’ attitudes and behaviour (De Witt and Brady, 2003; Hart, Heskett and Sasser, 2002; Mattila and Patterson, 2004; Smith and Bolton, 1998).

Zeithaml et al. (2008) conceptualised customers’ perceptions of quality and customer satisfaction as illustrated in figure 5.2 below.
5.6 The SERVQUAL Model

Parasuraman et al. (1988) formulated a service quality (SERVQUAL) model highlighting the main requirements for delivering quality service (Oliver, 1997). The model identified five gaps causing unsuccessful service delivery. These gaps are explained as follows: the gap between consumer expectations and management perception; management do not always perceive correctly what customers want; and the gap between management perceptions and service quality specification.

Oliver (1997) posits that the SERVQUAL satisfaction survey instrument is one of the most widely used techniques for offering quantitative measures of customer satisfaction in the USA. It contains both an expectation score and perception score. Customers are able to indicate to what extent they agree with a series of statements designed to measure management might correctly perceive the customers’ wants but not set specified performance standards; the gap between service quality specifications and service delivery. As Oliver (1997) explained, the staff might be poorly
trained, incapable or unwilling to meet standards. Staff may also have conflicting standards; the gap between service delivery and external communication. Consumers’ expectations are affected by communication by the organisation such as advertisements; and the gap between perceived service and expected service. This gap occurs when the consumer misperceives the service quality forming a sum total of all other four gaps. From this perspective, service quality is therefore the degree of discrepancy between the customers’ normative expectations of service and their perception of service performance. The differences constitute the gap. The size of the gap indicates where improvement should be made by facilitating the establishment of clear standards for service delivery. Since Parasuraman et al. (1985) classified their original ten dimensions and released their conclusions regarding service quality; researchers have continued to examine various components of the financial services industry in their quest to more easily identify which of the ten will most likely lead to positive customer satisfaction. Most research shows a solid correlation between the group of dimensions and customer satisfaction, however, a common grouping of the ten service quality dimensions that points to a universal perception as most important to customers’ satisfaction is not prominent. Yavas, Benkenstein and Stuhldreier’s (2003) research of private retail banks in the former East Germany explained tangibles (the physical appearance of facilities and personnel), responsiveness (timeliness of service) and empathy. Bick, Brown and Abratt (2004) concluded that in South Africa, customers perceived the most important service quality dimension to be reliability. Research of retail bank customers’ satisfaction in Thailand revealed a significant negative correlation with empathy, one of Parasuraman et al.’s ten service quality dimensions (Promsi, 2005). Competence, safety and tangibles were the dimensions that most contributed to customers’ satisfaction with their banks in Dhaka City, Bangladesh (Islam and Admed, 2005). African American, Latino and non-Latino Caucasians in a South Florida study clearly demonstrated differences in the significance of the ten dimensions to their satisfaction with their retail banks (Lopez, Hart and Rampersad, 2007).

In the services industry such as the banking industry, upward and horizontal communication tends to reduce Gaps 1 and 4 respectively (Parasuraman, 1985) while
upward communication provides information to upper management about the activities of the organisation. Horizontal communication is meant to exist within and between departments. Thus, preliminary information sharing and usage provides a source of competitive advantage in service institutions and may also be utilised to improve service and performance. Parasuraman (1998) further developed five broad dimensions of service quality. These are: reliability (the promise to perform the service promised dependably and accurately), responsiveness (the willingness to help customers and provide prompt service), assurance (the knowledge and courtesy of employees and their ability to convey trust and confidence), empathy (the provision of caring, individualised attention to customers) and tangibles (the appearance of physical facilities, equipment, personnel and communication materials). These are as shown in Figure 5.3.

According to Parasuraman (1998), the dimensions formed have been adapted to measure service quality in various industries. Organisations with an excellent service delivery record share the following common practices: commitment to quality by top management, high standards, and systems of monitoring service performance and customer complaints and an emphasis on employee satisfaction.
These five qualities have been challenged by scholars and have since been expanded to ten service qualities to measure satisfaction. These are:

1. Dimension;
2. Tangibles;
3. Reliability;
4. Communication;
5. Responsiveness;

Source: Parasuraman et al., 1985.
6. Credibility;
7. Security;
8. Competence;
9. Courtesy; and
10. Understanding.

De Sarbo (1994) is one of the earlier scholars who tailored the original ten SERVQUAL dimensions to suit banks. Below is a comparison of the original ten dimensions and the service dimensions tailored for banks. De Sarbo (1994) recommended the use of the twelve variables to measure customer satisfaction in banks. ATM access is a measure of banks’ accessibility as depicted in Table 5.1 below.

**Table 5.1 SERVQUAL adapted to Banks**

<table>
<thead>
<tr>
<th>SERVQUAL DIMENSIONS</th>
<th>ADAPTATION TO BANK SERVICES (IDENTIFIERS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability</td>
<td>Facility and equipment (FACILITY)</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>Selection and quality of financial offering (SELECTION)</td>
</tr>
<tr>
<td>Communication</td>
<td>Accuracy and dependability (ACCURACY)</td>
</tr>
<tr>
<td>Credibility</td>
<td>Speed of service (SPEED)</td>
</tr>
<tr>
<td>Security</td>
<td>Communication with customers (COMMUNICATION)</td>
</tr>
<tr>
<td>Competence</td>
<td>Reputation for honesty and integrity (REPUTATION)</td>
</tr>
<tr>
<td>Courtesy</td>
<td>Financial strength and security (FINANCIAL)</td>
</tr>
<tr>
<td>Understanding</td>
<td>Knowledge and competence of personnel (KNOWLEDGE)</td>
</tr>
<tr>
<td>Access</td>
<td>Politeness and courtesy of personnel (POLITENESS)</td>
</tr>
<tr>
<td>Tangibles</td>
<td>Understanding of individual customers (UNDERSTANDING)</td>
</tr>
<tr>
<td></td>
<td>Convenience of location and operating hours (CONVENIENCE)</td>
</tr>
<tr>
<td></td>
<td>ATM access</td>
</tr>
</tbody>
</table>

Source: Adapted from De Sarbo et al., 1994.
5.6.1 Service Quality as a Tool for Meeting Customers’ Expectations

Service quality incorporates the concepts of meeting and exceeding the expectations of the customer and is designed to value the human interaction between a business and its customers (Antony, Surjadija and Ghosh, 2003). Service quality is the extent to which a service meets customers’ needs or expectations (Lewis, 2004) and hence the difference between customer expectations’ of service and perceived quality of service. If expectations are greater than performance, perceived quality is less than satisfaction leading to customer dissatisfaction. Ojasalo (2001) in an effort to define quality of services states that the notion of quality in the services industry is largely tied to the understanding of the service phenomenon. The service phenomenon itself is best understood from a differentiation perspective, that is, the aspects differentiating service and manufacturing industries.

The characteristics differentiating services from manufactured goods as articulated by a number of researchers (Saunders, 2002; Lakhe et al., 2005), commonly referred to as attributes of services are foremost the intangible and inseparable nature of the product. The service product is produced and consumed simultaneously, making it difficult to place quantifiable terms on the features that contribute to the quality of the product. This intangible nature of services gives credence to Lakhe et al.’s (2005) proposition that the traditional definition of quality as a conformance to standards is usually not applicable to services since there are no specified standards and even if they are specified, they are difficult to measure. It therefore becomes difficult to measure quality because of its subjective nature. Customers cannot evaluate service prior to consumption and during consumption. The challenge therefore lies in managing the appearances and perceptions of services (Harvey, 2004).

Services are also perishable since they cannot be stored as inventories for future use. Services have to be provided on demand. This means that time is an important feature of providing services, which will affect their quality whereas in manufacturing it is rarely regarded as a feature of goods. There is also variability in the service product. This arises from the participation of the consumer in the production process,
thereby introducing an unknown and unpredictable influence on the process. The customer also adds uncertainty to the process because it is often difficult to determine the exact requirements of the customer and what is regarded as an acceptable standard or service. This problem is magnified by the fact that standards are often judgmental, based on personal preferences or even mood rather than technical performance of goods that can be measured (King, 2005; Kim, Park and Jeong, 2004). Thus, the outcome of a service depends on the interaction between the customer and the provider of the service, and on the customer’s perception of it. In this regard, service quality, always involves the customer as part of the transaction process, therefore the balance between the expectations of the customers and their perceptions of the services received (Saunders et al., 2002). Many researchers have been able to show that quality service may influence retention, satisfaction, growth and profits positively (Anderson and Mittal, 2000; Bruhn, 2003; Klee, 2007).

A high quality service therefore is one where the customers’ perceptions meet or exceed their expectations. However, regardless of the type of service offered, service quality is always a combination of two factors, service procedures and service conviviality (Antony, Surjadija and Ghosh, 2003). Procedural service dimensions measure the technical systems involved in getting products and service to the customer comprising seven major components, namely service flow, timeliness, accommodation, anticipation, communication, customer feedback and supervision. Convivial dimensions of service reflect the provider’s ability to relate to customers as people to establish rapport and to recognise their needs as human beings. Notable components of these are attitude, body language, tact, attentiveness, guidance and problem solving.

5.6.2 Service Quality Characteristics

Ray (2004) articulates some of the important characteristics of service facets which are vital to its quality, the first one being responsiveness to calls. Time is of essence when it comes to resolving customer queries in any service activity and it has been referred to by a number of authors as an important component in the quality of ser-
vice (Saunders, 2002). It is a feature of a service to be given high priority because the service has to be provided on demand and the interval in provision is an element of the actual product. A service function sets its own standards for service response and provides the most accurate means possible for calculating the costs associated with their function. This information gives the means for monitoring and improving standards. The service provider is perhaps the only representative of the organisation that the customer sees, therefore his/her behaviour is of essence to service quality of the organisation. The image portrayed by an organisation’s official and the way in which he/she behaves is a quality aspect in the eyes of the customer (Tam, 2004; Brady and Cronin; 2001). This includes among other things cleanliness of self, tools, communication suggestions and working methods.

Management of an organisation is a vital service quality characteristic, for example existence of good support systems that include regular training, proper communication and staff welfare. Feedback is critical in every operation; hence a system for feedback has to be developed for measuring quality of service. Customers have a level of expectation before any service is delivered. Their perceptions result from comparisons between their prior expectations and their actual experiences of the service provided (Kotler and Keller, 2006; Michel, 2004). A focus group research with a sample of more than 1900 customers in the services industry undertaken by Zeithaml (2000) identified ten criteria used by consumers in evaluating service quality, which can be used as a basis for measuring service performance. These are reliability (dependable accurate performance), responsiveness (promptness and helpfulness), competence, courtesy, credibility, good communication, understanding the customer (empathy) and tangibles (appearance of physical elements).

5.7 Customer Service Perception Satisfaction Model

5.7.1 Perceived Value

Perceived value can be an ambiguous term and to some extent also idiosyncratic. While it can be defined in a general sense, making it operational and measuring it
can prove to be difficult. Most definitions uphold that perceived value is the consumer's objective assessment of the utility of a brand based on perception of what is given up for what is received (Zeithmal, 2000). It is a widely held view that satisfaction is a function of perceived performance and expectations. However, this definition itself is so broad and vague that the construct is virtually impossible to measure with validity, reliability and consistency. In many academic and organisational studies, perceived value has been measured with a single item or small number of items (Tam, 2004). Researchers have developed complex conceptualisations and measures of perceived value (Maxham, 2002; Nicholson, Compeau and Sethi, 2001; Zeithaml and Bitner, 2000) but these measures are not used in any consistent manner across studies and within organisations.

The Customer Service Perception Satisfaction Model was developed by Anton in 1996. He demonstrated the various outcomes based on the various experiences of the customers. Anton (2000) suggested that when customers receive better than expected service they are delighted, when they get what they expected they are satisfied and when they get less than expected they are dissatisfied as shown in Figure 5.4 below.

**Figure 5.4 Customer Service Perception Satisfaction Model**

<table>
<thead>
<tr>
<th>Customer Service Experience</th>
<th>Customer Perception</th>
<th>Satisfaction Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better than expected</td>
<td>Delighted</td>
<td></td>
</tr>
<tr>
<td>As expected</td>
<td>Satisfied</td>
<td></td>
</tr>
<tr>
<td>Less than expected</td>
<td>Dissatisfied</td>
<td></td>
</tr>
</tbody>
</table>

Source: Anton, 2000:28

Customers are more educated and informed than ever before and tend to maximise value. They estimate which offer will deliver the most perceived value and act on it. Customer perceived value is the difference between the prospective customer’s
evaluation of all benefits and all the costs of an offering and the perceived alternatives. Customer perceived value is based on the difference between what the customer gets and what he/she gives for different possible choices. The customer gets benefits and assumes costs (Kotler and Keller, 2006; Cohen, 2003). A bank can increase the value of customer offerings by raising the emotional or functional benefits and reducing one or more of the related costs.

Creating perceived value for customers is a key success factor for professional service organisations (Khalifa, 2004). Previously recognised value by specific customers may wane over time or disappear altogether. Long-term customers may defect for various uncontrollable reasons. Ganesh, Arnold and Reynolds (2000) stated that customer value is created when the perception of benefits received from the transaction exceed the costs of ownership. Value is determined by the customer and therefore what one customer perceives as value may differ from another. It is an issue of perception as expectations from different customers are different.

In a study done in the financial services industry, Roig, Garcia, Tena and Monzonis (2006) found that the principal source of competitive advantage for organisations to compose an offer provides customers with a perceived value higher than that of the competition. Hence the value received is a competitive edge that can lead to brand recognition, loyalty and product/service preference. Smith and Colgate (2007) identified four major types of customer value that can be created by organisations namely: functional/instrumental values, experiential/hedonic values, symbolic/expressive values and cost/sacrifice values.

5.7.2 Conclusion

This chapter has examined some theories in an attempt to explain why customers respond differently to various offerings by banks, thus affecting their levels of satisfaction and impacting on the loyalty and retention to that particular bank. The first one is the Theory of Reasoned Action which stipulates that individuals are rational and will consider implications of their actions before making a decision and that a per-
son's Behavioural Intention depends on the person's attitude about the behaviour and Subjective Norms. This theory was found useful in the study as it attempts to shed light in understanding why customers will be satisfied with the banking services while others may not. The chapter has also examined the SERVQUAL model where the original key variables by Parasuraman have been examined alongside the extended ones by later scholars like DeSarbo. The SERVQUAL model highlights the main requirements for delivering quality service and which will greatly improve customer’s satisfaction. From the studies reviewed the five pillars of the SERVQUAL model still remain the key variables that affect customer satisfaction in any the service industry and more so banks. The key variables also form key parameters in the empirical studies.

The following chapter will review key concepts that have emerged from the literature review and establish a linkage between the literature and the empirical study.
CHAPTER SIX: KEY CONCEPTS EMERGING FROM THE LITERATURE REVIEW

6.1 Introduction

This chapter is a summary of findings from the literature review covered in the first; second third, fourth and fifth chapters of the research. The review will focus on the three major themes covered in the three literature review chapters and which majorly form a basis for the empirical studies. The chapter provides a linkage between the literature and the empirical study.

6.2 Study Background

Chapter one gives an introduction to the study and the background to the research. It outlines the research objectives and the hypotheses upon which the empirical study is based. Key concepts are defined in relation to their use in the study in paragraph 1.3. The conceptual framework is also presented as shown in Figure 6.1 indicating the relationship of independent and dependent variables of the study. The chapter culminates in a diagrammatic overview of the entire study in Figure 1.1.

6.3 Conceptual Framework of the Proposed Model

The conceptual framework in Figure 6.1 shows the diagrammatic representation of various relationships among the variables in the study. According to Leedy and Ormrod (2005), an independent variable is a variable that is studied as a possible cause of something else. The intervening variable may be defined as the factor that affects the observed phenomenon, but cannot be seen, measured, or manipulated; its effect must be inferred from the effects of the independent variables on the observed phenomenon (Blumberg, Cooper and Schindler, 2005). The conceptualisation of this study is based on three key variables, namely independent variables comprising of socio-economic factors and bank-related factors, followed by intervening variables comprising of the customer/proximate factors which in turn influence
the dependent variable, namely customer satisfaction. This leads to the outcome of customer retention and loyalty.

The model in Figure 6.1 shows the conceptualisation of the relationships among these variables.

**Figure 6.1: The Conceptual Framework of the Study**

Source: Self Constructed
6.4 The Kenyan Banking Industry

The development of the banking industry is explored in paragraph 2.21 starting with the global perspectives and ultimately looking at the Kenyan banking industry. The chapter goes on to list the Kenyan financial institutions. As indicated earlier, the Kenyan banking industry has grown tremendously in the last four decades. Currently there are 43 licensed commercial banks in Kenya. The Kenyan banking industry has been a major contributor to the GDP. Despite the economic crunch which started in the year 2008, the banks in Kenya have continued to record huge profits in the last three years (Central Bank of Kenya, 2010).

The Kenyan government has instituted various financial reforms that have set in motion increased competition amongst the banks. As mentioned previously, the Kenyan population is about 40 million while the banked population remains at ten million. The banks have been fighting to grow their market share from this small number of people. As a result, customer service has been used by the banks as a differentiating and competitive tool aimed at increasing the banks’ market share. The initiatives the banks have implemented in order to enhance levels of customer satisfaction amongst bank customers are evaluated in the empirical study.

The Kenyan banking customer has also undergone many changes becoming more discerning. The customer expects more from the bank’s failure to which he/she may opt to switch from the bank he/she is in to another bank. The empirical study explores reasons why bank customers stay with a bank and also reasons why they move between banks. Banks in Kenya have to give relevant offerings to their customers to meet their needs in order to retain them.

6.5 Customer Satisfaction

The customer satisfaction concept has been referred to as the cornerstone of Marketing as a discipline. Some of recent scholars have been Cooil, Keiningham, Aksoy and Hsu (2007). In the last decade however, the concept has acquired a more im-
important meaning due to the development of other concepts like TQM and CRM that focus on the customer as the reason that businesses exist. Scholars have been trying to explore various antecedents of customer satisfaction for the last four decades and as a result, many theories as to what causes customer satisfaction have been propagated. From the review of literature, it is apparent that there has been a paradigm shift towards the customer as the focus of every business. It is also evident that a more satisfied customer is more loyal to the organisation and as a result more profitable (Mittal, 2002). Customer profitability is closely related to satisfaction. Banks will have to strive to meet customers' needs, desires and requests in order to retain them and draw profits from them. All studies reviewed by Anderson and Mittal (2000), Foster and Zeithaml (2000) support this view. Further from the literature reviewed, the bank customer will be satisfied if the banks can meet their banking needs and even exceed them.

The impact of customer satisfaction on retention has been established by the literature and this will further be validated by the empirical study. The empirical study determines customer satisfaction from the customer's point of view. From the empirical study the antecedents of customer satisfaction in the Kenyan banking industry are determined. This study is the first of its kind in Kenya. Some of the antecedents of customer satisfaction that marketing theorists have associated with satisfaction which the empirical study validates are the quality of services and the ability of the banks to resolve customer queries. Various drivers of customer satisfaction as depicted by marketing theorists have been identified and discussed. Some of these key drivers of customer satisfaction form some of the key components of the questionnaire in the empirical study.

The various benefits of customer satisfaction to businesses have been demonstrated by various marketing researchers. As indicated earlier, Salmen and Muir (2003) posit that satisfaction breeds loyalty. Some of the antecedents of customer satisfaction that scholars have been able to agree on include quality (Anderson and Fornell, 2001), expectation and quality (Giese and Cote, 2002), as well as expectation disconfirmation (Kang, Nobuyuki and Herbert, 2004).
Current methods used to measure customer satisfaction have been explored. Some of the measures cited are mystery shopping and tallying the customer attrition numbers as well as surveys. The strategies used to retain the Kenyan banking customer have also been identified. Customers in the empirical study are required to indicate whether they are aware of the strategies banks are employing to satisfy or retain them.

Customer satisfaction is one of the key factors in modern marketing and customers’ behaviour analysis used by financial institutions. Generally speaking, if customers are satisfied with the provided goods or services, the probability that they use the services again increases. Also, satisfied customers will most probably talk enthusiastically about their buying or the use of a particular service; this will lead to positive advertising (Ranaweera and Prabhu, 2003a). On the other hand, dissatisfied customers will most probably switch to a different brand; this will lead to negative advertising. The importance of satisfying and keeping a customer in establishing strategies for a market and customer oriented organisation cannot be neglected. Customer satisfaction is often considered the most important factor in thriving in today’s highly competitive business world and the studies will validate these assertions.

6.6 Customer Loyalty and Retention

6.6.1 Loyalty

Retention emanates from loyalty and this view is largely supported by the literature reviewed. Marketing scholars posited that customer satisfaction will most likely lead to loyalty which in turn breeds retention. The two dimensions of loyalty, behavioural and attitudinal are discussed in chapter two. Attitudinal manifestations will constitute positive word-of-mouth actions and a good feeling about the brand while behavioural manifestations will be seen in repurchases behaviour. From the literature review it is evident that customer loyalty has always been positively linked to profitability. The relationship between satisfaction loyalty and profitability has been demonstrated by several studies (Anderson and Mittal, 2000). Cus-
Customer loyalty is a big challenge that banks have to contend with. In the empirical studies, customers' loyalty will be measured in terms of how many accounts they hold and the intended duration of the relationship with a specific bank.

Age is also linked with loyalty towards a services provider. Empirical studies test this relationship. Researchers such as Duncan and Elliot (2004) found that age is positively identified with loyalty and share of wallet while other studies like that of East, Hammond and Gendall (2006) contradict this finding. He asserts that old customers are just as likely to switch to other brands and experiment with alternative brands as the younger customer. Loyalty is vulnerable because even if customers are satisfied with the service they will continue to defect if they believe they can get better value, convenience or quality elsewhere. The level of satisfaction is always high when the customer gives minimum price and gets maximum usage and profit (Klee, 2007). Dissatisfaction usually occurs when pricing of bank products does not suit 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.

In a business context loyalty has come to be described as a customer's commitment to do business with a particular organisation, purchasing their goods and services repeatedly, and recommending the services and products to friends and associates. Loyalty occurs when the customer feels so strongly that the services provider can best meet their relevant needs that services providers' competition is virtually excluded from the consideration set and the customer buys almost exclusively from him/her (Homburg and Giering, 2001).

A loyal customer can mean a consistent source of revenue over a period of many years for the bank. However, this loyalty cannot be taken for granted. It will continue only as long as the customer feels they are receiving better value than they would obtain from another supplier. There is always the risk that a customer will defect when a competitor offers better value or a wider range of value added options.
Jansson and Chestnut (2008) suggest that loyalty programmes must enhance the overall value of the product or service and motivate loyal buyers to make their next purchase. ‘Loyalty programmes’ refer to various ways organisations use to reward their customers who partake of their products or services. Loyalty programmes are often set up to encourage customers to enter lasting relationships with an organisation by rewarding them for doing business with the organisation. Managers also hope to gain higher profits through extended product usage and cross selling, to retain and grow high value customers, and to defend their market position in the face of a competitor loyalty scheme. It is important that loyalty-based marketing should not be confused with short-term price promotions, which seek to generate momentary bursts in sales. Loyalty programmes should be carefully focused to identify customers who are likely prospects for long-term relationships (Roman, 2003).

While implementing customer loyalty programmes in banks, retail bankers need to be more creative if loyalty between customers and the bank is to be a cornerstone of a strong, profitable relationship. Loyalty to a bank can be thought of as continuing patronage over time. The degree of loyalty can be gauged by tracking customer accounts, over defined time periods and noting the degree of continuity in patronage (Yi, 2005).

During the past decade, the financial services sector has undergone drastic changes, resulting in a market place which is characterised by intense competition, little growth in primary demand and increased deregulation (Jansson and Chestnut, 2008). 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 (Bednar, Reeves and Lawrence, 2005). Several strategies have been attempted to retain customers. In order to increase customer loyalty, many banks have introduced innovative products and services (Ba and Pavlou, 2002). In this study customers will be required to say if they are aware of the strategies their respective banks are employing in order to retain them.
6.6.2 Customer Retention

Marketing theorists have long established the link between customer loyalty and retention. Findings by Wirtz and Lihotzky (2003), Reichheld (2006) and earlier scholars like Swartz and Lacobucci (2000), Menon and O'Connor (2007) agree that customer satisfaction leads to customer loyalty which leads to higher retention rates. Further, retention benefits have been listed as follows: it leads to reduced sales and marketing costs, it leads to long-term profitability; it increases opportunities for cross-selling of products and services and increases positive word-of-mouth from customers which is a powerful marketing tool for the business. It also ensures that organisations do not spend money on the acquisition of new customers. Further, the studies have argued that a customer becomes more profitable as they stay in the business and that the customer will require less attention as customer retention is achieved. Reichheld (2006) and Menon and O'Connor (2007) all agree that the customer becomes easier to manage and more willing to speak positively about a company at any given opportunity. They are loyal and more tolerant of higher prices and unlikely to defect to the competition. Retention of a bank customer forms a key component of the empirical study and some of the determinants of retention tested at empirical level.

6.7 Customer-related (Proximate) Factors

Customer proximate factors have been discussed earlier in the study as likely to influence customer satisfaction and subsequent retention. The most important customer proximate factors that are examined in the empirical study are discussed. These factors will be evaluated empirically and the extent to which they contribute to customer satisfaction established.

6.7.1 Customer Expectations and Commitment

Customers’ expectations shape their perceptions of quality service from banks. If their expectations are met, they will be satisfied. Fornell (2001) indicated that if they
are not met, the customers will not be satisfied. Scholars like Szymanki and Henard (2001) have argued that repurchase behaviour would be indicative of customer commitment.

6.7.2 Customer Trustworthiness

Customer trustworthiness refers to the psychological benefits of the customer while enjoying certain benefits. It is important for a bank customer to trust his/her bank and to be in a secure relationship. The bank must display integrity, benevolence and competence from the customer’s point of view.

6.7.3 Socio-economic Factors

According to empirical studies the socio-economic factors considered to be drivers of satisfaction are age, income, marital status and education. The above factors have long been recognised in marketing theory and practice as both a core concept and the main goal of business activities (Trassorras, Weinstein and Abratt, 2008). Age moderates the relationship between satisfaction and loyalty (Baumann, Burton and Elliott 2005; Homburg and Giering 2001). In particular, older consumers are more loyal to a particular brand than younger consumers in the automotive (Homburg and Giering 2001; Lambert-Pandraud, Laurent and Lapersonne 2005) and banking industries (Baumann, Burton and Elliott, 2005).

However, the expected relationship between age and loyalty has not been universal. A large-scale study by the American Association of Retired Persons found that older consumers are just as likely to switch brands or experiment with alternative brands as are younger consumers (Jones et al., 2003). Marketers take socio-economic factors as significant determinants of positive word-of-mouth consumer loyalty and repeat purchase (Cronin et al., 2000; Kotler et al., 2002; Ranaweera and Prabhu, 2003b).
6.7.4 Bank-related Factors

Chapter two explored bank-related factors that could impact on customer satisfaction. Studies by Parasuraman and Zeithaml (1991), Dabholkar, Shepherd and Thorpe (2000) have been quoted supporting the view that strong interpersonal relationships between the customer and organisations’ staff as well as personal attention and comfort are strong drivers of service quality which in turn influence customer satisfaction and retention. These views are embodied in the Customer Orientation of Service Employee (COSE).

Customer satisfaction is one of the key factors in modern marketing and customers’ behavioural analysis used by financial institutions. Generally speaking, if the customers are satisfied with the provided goods or services, the probability that they use the services again increases. The importance of satisfying and keeping a customer in establishing strategies for a market and customer oriented organisation cannot be neglected. Customer satisfaction is often considered the most important factor in thriving in today’s highly competitive business world.

Services have unique characteristics that distinguish them from the physical goods (Rust and Zahorik, 2003). Services are often characterised by intangibility, inseparability, heterogeneity, and perishability. The importance of the above characterisations is that using them for evaluation before, while, and after using a particular service by the customers is often very hard. Quality is intangible and therefore understanding how the customers would evaluate the quality of the organisation’s services is often very difficult (Colgate and Hedge, 2001). In addition, services are real time, i.e. they are used by the customers as soon as offered. They cannot be stored and quality passed like physical goods. Therefore any bad service will most probably be experienced by a customer, which results in a customer’s dissatisfaction while using the service. Researchers have studied customer satisfaction in different contexts, like Bryant (2006) who proposed linear programming models to determine the fulfilment levels of parts characteristics under the requirement to achieve the determined con-
tribution levels of design requirements for customer satisfaction. Delgado-Ballester (2004) considered the problem of measuring user satisfaction in order to analyse user perceptions and preferences to assess website quality. Estrin (2005) proposed an index for online customer satisfaction, which is adapted from an American Customer Satisfaction Index (ACSI). Finextra (2004a) explored the satisfaction-loyalty relationships according to an empirical analysis in a sports-service context. Studies have revealed that there exists a direct connection between satisfaction and loyalty: satisfied customers become loyal and dissatisfied customers move to another vendor (Fournier, 2008).

A positive perception of value from the bank may bring customers back to do another transaction. When customers believe they are being treated fairly in an exchange, they will be satisfied with the transaction if their outcome-to-input ratio is in some sense adequate (Floh and Treiblmaier, 2006). Fullerton (2005) pointed out that quality, price, and company or brand image were three factors that comprised the customer value package. In other words, customers will make an explicit comparison between what they give and what they get. The positive relationship between equity and satisfaction was supported in the literature (White and Yanamandram 2004). Loyalty is vulnerable because even if customers are satisfied with the service they will continue to defect if they believe they can get better value, convenience or quality elsewhere.

6.8 Customer-centricity and Customer Relationship Management

The literature reviewed has demonstrated that banks with an orientation towards the customer stand to benefit. Customer-centricity starts when the organisation develops particular attention to the needs and behaviour of the customer. The studies by Bailey (2005) suggest that organisations must use the needs and resources of individual customers as the starting point for their strategies and new products. According to empirical studies, the customers’ opinion as to whether the banks’ treat them specially and whether they are consulted during the development of new products was sought.
Total Quality Management (TQM) and Customer Relationship Management (CRM) are further customer-driven concepts that haven’t taken root in the banking industry and which the study investigates. The three concepts, Customer-centricity, Total Quality Management and Customer Relationship Management attempt to create a relationship between the customer and the services provider as well as to shift focus to the customer as the reason the company exists.

6.9 Theoretical Framework

Chapter 5 has examined three major theories that attempt to explain customer behaviour and why customers will respond differently to bank offerings with some being satisfied while others will not be. The Theory of Reasoned Action (TRA) suggests that a customer’s response to an offering is usually well reasoned and is manifested clearly in their attitude and behaviour. It further says that customers make rational decisions whether or not to take action towards certain offerings. The questionnaire used in the study has incorporated various attributes of SERVQUAL like responsiveness, tangibility and reliability among others.

6.10 Conclusion

The purpose of this chapter was to summarise the contributions of the literature review (chapters one to five) and to link the key concepts discussed with the primary research. Amongst the key concepts that have emerged from the literature reviewed are customer satisfaction and retention, the role of service quality, the relationship between bank customers and bank staff, socio-economic factors and their impact on bank customer satisfaction. The concept of customer satisfaction has been complicated by the development of other concepts like TQM and CRM that focuses on the customer. The antecedents of customer satisfaction that scholars have agreed on include quality, expectation as well as expectation disconfirmation and these to a good extent have been validated by the studies.

Further the literature explores the link between customer loyalty and retention. It is widely accepted that customer loyalty leads to higher retention rates. When
achieved, customer retention has many benefits to the banking industry. Among the social-economic factors considered for the study were age, income, marital status and education. The study also sought to investigate the significance of Customer-centricity, Total Quality Management and Customer Relationship Management concepts that attempt to create a relationship between the customer and the services providers. All these concepts will form the basis of the primary research and are key components of the questionnaire.

The following chapter will capture the research design, data collection instruments, data analysis, ethical considerations while carrying out the study, data validity and reliability, scope and delimitation of the research and the methodology adopted in the study.
7.1 Introduction

This chapter describes the methodology used for this research, the development of the survey instrument and the administration of the survey. A description of the selected analytical process used to examine the quantitative and qualitative data collected from the scientific approach, as well as a justification of the research instrument is provided. Firstly, the chapter presents a discussion regarding the research design followed by research strategies and the sampling design. The next subsections present an outline of the data collection instruments, data collection and refinement, data analysis, ethical considerations, scope and delimitation of the research. The chapter concludes with a summary preluding the nature of the analysis in chapter eight.

7.2 Research Design

Although research is central to both business and academic activities, there is no consensus in the literature on how it should be defined. However, from many different definitions offered, there appears to be agreement that research is a process of enquiry and investigation - it is systematic and methodical. Research increases knowledge (Smith and Bolton, 2003).

There are various research types available to a researcher. Kothari (2004) has highlighted the following: First, is the analytical research which seeks to establish facts on information that is already available to either confirm or negate or critically evaluate the material. Second, is the applied research which aims to find a solution to an immediate practical problem facing a society or an organisation. Third, is the fundamental research which is mainly concerned with generalisations or formulation of a theory. Fourth, is qualitative research which is applicable to phenomena which can be expressed in terms of quantity while qualitative research addresses phenomena
which can be expressed in quality or kind. Shajahan (2004) describes the fifth type as the conceptual research where a researcher seeks to interpret an already existing concept. Sixth, is the empirical research which is data based and will usually come up with conclusions that can be verified by observation or experiment. Seventh, is the laboratory research which is carried out in a controlled environment to enable for observation of certain relationships in the variables. Eighth, is the clinical research which involves only a few samples which are studied in depth. Ninth, is exploratory research. Cooper and Schindler (2003) explained that exploratory research leads to the development of hypothesis as opposed to their testing. Tenth, is the historical research which utilises historical sources like documents, literature, leaflets to study the past. The twelve is the one time vs longitudinal research. One time research is confined to a single time period while longitudinal is carried out over several time periods. The thirteenth is the descriptive research which includes surveys and fact finding equiries to test certain hypothesis (Mugenda and Mugenda, 2003).

A researcher can use any one of the above mentioned research types or in combination. This study adopted a descriptive survey design. The design was chosen because the target population was dispersed over a wide geographical area. The design was useful in helping the researcher to obtain both quantitative and qualitative data from the target population. Quantitative data is useful when making comparisons and testing hypotheses and relationships, while qualitative data has a strong advantage as it enabled the researcher to draw insights that could not be gained through quantitative or “hard” data (Mugenda and Mugenda, 2003). Furthermore, the qualitative approach was necessary because the collaboration of respondents was essential due to the sensitivity of the study as it relates to respondents divulging information relating to their banks. Silverman (2005) indicates that qualitative research is effective in encouraging sensitivity in the choice of research instruments and is a versatile approach in data collection especially in the art of asking questions. The research was a ‘one time’ because it was undertaken at a given point on time and not over several time periods.
7.3 Research Strategies and Population

According to Mugenda and Mugenda (2003) the target population is the population to which the researcher wants to generalise the results of the study. The target population of this study included all the customers of the 43 banks in Kenya. In this regard, any individual who held an account with any bank was considered as a potential respondent for the study.

The sampling process used the multi-stage sampling technique. In the first stage, cluster sampling was used to group the target population using their banks of affiliation. The second stage involved stratified sampling which grouped the bank customers in either urban or rural branch settings. In the third stage, proportions were determined based on branch customer portfolios to ensure representation. Finally, systematic random sampling was used to select the individual respondents for the study.

The sample size was computed using Fischer's (1998) formula \(n = Z^2pq/d^2\), where:

- \(N\) = Sample size
- \(Z = 1.96\), that is the value of \(Z\) corresponding to the 95% confidence level
- \(p = 0.5\) (50%)
- \(q = 1 - p\) (1-0.5=0.5)
- \(d = 0.05\) (5% error margin)

This gave a minimum sample size of 384 respondents. It has been suggested by Sekaran (2000) that a range of a minimum sample size of 30 to a maximum of 500 is sufficient and acceptable for a scientific investigation.

7.4 Data Collection Instruments

The primary data collection instrument for this study was self-administered questionnaires. The advantages of using a self-administered questionnaire were that more
information could be obtained from many respondents in a relatively short time (Mugenda and Mugenda, 2003). Questionnaires are identical; the stimulus provided is identical in all cases. Anonymity of respondents is guaranteed ensuring they do not influence the validity of the responses particularly when research of a sensitive nature is undertaken. It avoids non response from postal questionnaires. It is personal as some respondents may wish to discuss more with the researcher and one can observe body language. Also according to Kothari (2004), the researcher is able to probe respondents to elaborate on an answer and elaborate on questions that are not clear to respondents. For illiterate or semi illiterate respondents, the questionnaire translated in the Kiswahili language was used by the researcher. The researcher also could ensure that the respondents answered the questions themselves since she was present during the questionnaires’ administration. This benefit does not accrue when postal questionnaires are used. It also eliminates the ignoring of questionnaires received by mail thus enhancing the response rate. Finally, the researcher has control over the correctness of the information (Shajahan, 2004).

The questionnaires were administered by use of field agents who distributed the questionnaires to bank customers in various banks and work places in the various towns according to the sampling design. A total of 590 questionnaires were completed out of which 70 were annulled due to errors leaving a sample of 520 which formed the basis of this analysis. Those that refused to take part are not included in this tally as no questionnaire was administered to them.

This sample was deemed to be adequate as it was beyond the minimum sample size of 384 according to the Fischer’s formula as highlighted above. All the 520 questionnaires were analysed in order to enrich the findings. The questionnaire in this study was designed to capture the various variables of the study and contained both open- and closed-ended questions. The first questions were general questions on the respondents’ biographic data followed by more specific questions on satisfaction and retention. The questions were easy to follow, thus minimising the risk that the respondent will fail to follow questions or inadvertently omit a question. According to Cooper and Schindler (2003) open-ended questions permitted free responses, with-
out providing or suggesting any structure for the replies, while closed-ended questions enabled responses to be limited to stated alternatives. These alternatives were designed in such a way as to be simple for the respondents to understand.

The questionnaire comprised of two sections. Section one contained information on customer satisfaction while section two contained information on determinants of customer satisfaction in banks. The subsections in section two included socio-economic factors, bank-related factors, strategies for customer satisfaction and customer retention and loyalty. The questionnaire contained sets of statements where respondents were expected to rate the extent of their agreement or disagreement with the various aspects of customer satisfaction and retention. These statements were linked to a five-point Likert interval scale. This interval scaled instrument enabled the researcher to perform the statistical data analysis as described in data analysis subsection of this study (Leedy and Ormrod, 2003; Cooper and Schindler, 2003). A five-point Likert scale was used to gauge and measure the respondents' level of satisfaction with the various banking products and services. The questionnaire also contained some open-ended questions which helped to give more insight on the quantitative data collected.

The majority of the questions used in the questionnaire were multiple choice questions and dichotomous questions. A dichotomous question allows for only one of two response options. The reason for choosing these questions is because they are easier, more economical and less time consuming to administer than open-ended questions (Silverman, 2005). Martins, Loubser and Van Wyk (1996) provided guidelines to set questions. Amongst others, questions must be kept as concise as possible. If the answer required is definitive the questions must be definitive.
7.5 Data Collection and Refinement

Two kinds of data were used in this study, namely primary and secondary data. Primary data were collected through questionnaire administration. Secondary data were obtained through documentary analysis. Among the documents reviewed were project reports, quarterly, semi-annually and annual bank publications, among others. Documentary analysis formed the core of the scrutiny of secondary sources of information with regard to customer satisfaction and retention in the banking sector.

A computer search through online databases such as Springer Link, Emerald and Google was conducted to obtain relevant indices and international dissertation abstracts. Simultaneously, at national level, a library search was undertaken. In order to assist in this regard, an internet search was conducted for relevant books, articles and other appropriate literature. It was established that over the past decade, extensive research has been undertaken on various aspects of the banking industry, such as information technology, internet banking, customer service, profitability indexes among others in America, Europe and few in African countries. However, no systematic and exclusive study was found on Kenya exploring determinants of customer satisfaction and retention with regard to banking customers. This posed a knowledge gap which this study sought to fill through research and a survey of the Kenyan banking industry.

7.6 Data Analysis

The gathered data were validated, edited and then coded. During the validation process, the questionnaires were checked for completeness and accuracy. The questionnaire was also scrutinised to check for errors and omissions, ambiguities, inadequacies, illegible and irrelevant responses. Once this was done, the data were entered into an appropriate category of the Statistical Package for Social Sciences (SPSS) computer software which was used to carry out the data analysis.
The data were analysed using both quantitative and qualitative techniques. Quantitative data were characterised by descriptive statistics as well as inferential statistics. The purpose of descriptive statistics was to enable the researcher to meaningfully describe a distribution of scores or measurements using a few indices or statistics. The types of statistics or indices used depended on the variables in the study and the scale of measurement used (such as ratio, interval, ordinal and normal). In this case the statistical tests used by the researcher included: Pearson Chi-square, ANOVA Test, Pearson Correlation and Multiple Linear Regression. The tests were used because the variables were measured at interval or ratio scales. Pearson correlation was used where the data was continuous while pearson correlation was used where the data was ranked.

The following Multiple Linear Regression Model was used:

\[
Y = \alpha_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n + \epsilon
\]

Where:
- \( Y \) - customer satisfaction
- \( X_{1-n} \) - independent variables
- \( \alpha_0 \) - alpha coefficient/constant
- \( \beta_{1-n} \) - regression coefficients
- \( \epsilon \) - error term

Qualitatively, the open-ended questions were subjected to content analysis. The findings were presented in a variety of ways that were easy to interpret such as frequency distribution tables, percentages, cross-tabulations, pie charts and bar charts among others. Graphic presentation of data is a valuable supplement to statistical analysis. It enables the reader to see the distribution trends much more easily and clearly than is possible by simply looking at numbers (Mugenda and Mugenda, 2003).
7.7 Ethical Considerations

Issues of customer confidentiality were observed. Permission from the ethical board at Nelson Mandela Metropolitan University, the respective banks in Kenya as well as informed consent from the customers was sought. Customers’ participation in the study was voluntary and no penalties were imposed on the respondents who failed or refuse to participate in the study.

Participation was invited by using a covering letter. The covering letter assured potential respondents of the following: their response would be treated as strictly confidential, they would remain anonymous, their participation would be voluntary, withdrawal from answering the questions and completing the questionnaires at any time would not affect them in any way, and participants would be notified of the findings of the study upon request when the research is completed.

7.8 Validity and Reliability

During the validation process, the questionnaires were checked for completeness and accuracy. The questionnaire was also scrutinised to check for errors and omissions, ambiguities, inadequacies, illegible and irrelevant responses. The purpose of reliability assessment was to assess the internal consistency of the data collected by the research questionnaire. The gathered data was validated, edited and then coded. Cronbach Alpha was used to assess the reliability of the data collected for the whole questionnaire. The Chi-square tests were performed to establish the relationship between different constructs.

7.9 Scope and Delimitation of the Research

Delimiting the research makes the research manageable from a research point of view. By limiting the research it does not mean that the same topic is not applicable in other organisations. The study was based on the Kenyan banking industry. Kenya has eight provinces with a total of 43 banks operating throughout the country. This
study targeted all bank customers in the eight provinces. The scope is limited to bank customers in Kenya. The sample selection was done as described previously. The study anticipated a limitation of concealment of information from the respondents due to the fact that banking information is regarded as strictly confidential. This has a negative impact on the collection of information and the response rate. However, the researcher secured permission from the relevant authorities as well as an introductory letter explaining the purpose of the study. This helped to increase the response rate.

The study also anticipated the problem of illiteracy among the respondents. Some of the respondents were unable to provide information accurately because of illiteracy or low levels of education. In order to overcome these problems, the researcher used an interpreter who translated the instruments into Kiswahili which is the national language or the local language that is well understood by most respondents whether educated or not. This strategy was very useful, especially in the rural areas.

This study was a cross-sectional survey which means that it was done at a certain point in time. Therefore trend analysis was not possible.

7.10 Conclusion

This chapter has captured the research design employed in the study as well as a justification for the choice of the research type. It has highlighted other research types available as well justifying why the descriptive method was preferred over other methods. The chapter has also highlighted the data collection instrument and data analysis process and tools. In addition, the chapter has also focused on ethical considerations as well as the scope and delimitation of the research. The next chapter consists of empirical results and discussions of survey findings presented to support the answers to the research questions and hypotheses of the study.
CHAPTER EIGHT: EMPIRICAL RESULTS AND DISCUSSION OF THE FINDINGS

8.1 Introduction

This chapter presents the survey results, analysis, discussion and presentation of the findings of the data gathered from the survey. The study sought to assess the determinants of customer satisfaction and retention in the Kenyan banking industry. The study was conducted in all the provinces in Kenya. As mentioned earlier in the study the population of the study constituted all the bank customers. The study gathered a total of 520 responses which formed the basis of the analysis and the findings contained in this chapter.

The study sought to answer the following research questions:
1. What is the correlation between socio-economic factors and customer satisfaction in Kenyan banks?
2. How do bank-related factors influence customer satisfaction in Kenyan banks?
3. What strategies are known to customers and employed by Kenyan banks to ensure customer satisfaction and customer retention?
4. What is the relationship between customer satisfaction and customer retention in Kenyan banks?

The data were coded and then edited to ascertain accuracy and completeness. The Statistical Package for Social Sciences (SPSS) computer software was used to analyse the quantitative data. Qualitative data on the other hand were organised in themes, categories and patterns pertinent to the target groups. Various statistical techniques were utilised, namely descriptive statistics which included mean, standard deviation, frequencies and percentages, Pearson Chi-square test, correlation analysis, multiple response analysis, ANOVA test, multiple linear regression analysis among others. The findings were presented using frequency distribution tables, cross-tabulations, percentages, pie charts and bar graphs amongst others.
8.2 Data Reliability Assessment

The study assessed the reliability of the data collected to measure the variables of the study. The purpose of reliability assessment was to assess the internal consistency of the data collected by the research questionnaire. In order to measure this, Cronbach Alpha was computed to assess the reliability of the data collected. According to Leedy and Ormrod (2003), a Cronbach Alpha value greater than 0.6 is regarded satisfactory for reliability assessment.

Table 8.1: Reliability Assessment

<table>
<thead>
<tr>
<th>Reliability Assessment</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cronbach Alpha (α)</td>
<td>0.7000</td>
</tr>
<tr>
<td>Grand Mean</td>
<td>2.7238</td>
</tr>
<tr>
<td>No. of Cases</td>
<td>520.0</td>
</tr>
</tbody>
</table>

From the findings in Table 8.1, the overall Cronbach Alpha value was 0.7 which was higher than the acceptable value of 0.6 according to George and Mallery (2003). It was therefore concluded that the data collected were reliable for the subsequent stages of analysis.

8.3 Response rate

Table 8.2 shows the assessment the response rate attained in the study.

Table 8.2: Response rate assessment

<table>
<thead>
<tr>
<th>Responses</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administred questionnaires</td>
<td>590</td>
</tr>
<tr>
<td>Unusable/disqualified questionnaires</td>
<td>70</td>
</tr>
<tr>
<td>Usable/fully filled questionnaires</td>
<td>520</td>
</tr>
<tr>
<td>Response rate</td>
<td>88.14%</td>
</tr>
</tbody>
</table>

As can be seen in Table 8.2, a total of 590 questionnaires were administred to the respondents. Out of these, 70 questionnaires were annulled/disqualified due to er-
rors identified in the data cleaning process leaving a total of 520 as the usable/well filled questionnaires which represents 88.14% response rate as shown in table 8.2. This formed the basis of the analysis presented in this chapter. According to Sekaran (2000) a range of a minimum sample size of 30 to a maximum of 500 is sufficient and acceptable for a scientific investigation. Those that refused to take part were not included in this tally as no questionnaire was administered to them. All the 520 questionnaires were analysed in order to enrich the findings.

8.4 Socio-economic Factors

This section analyses the various socio-economic factors that were investigated in the study. It assesses the demographic characteristics of the respondents, the relationship between the various socio-economic factors and customer satisfaction and assesses the influence of socio-economic factors on customer retention. The testing of the first and second hypotheses of the study is also done in this section.

8.4.1 Demographic Characteristics of the Respondents

The findings presented in Table 8.3 show the descriptive analysis of the various demographic characteristics of the respondents of the study. The key demographic characteristics analysed included gender of the respondents, respondents’ age categories, and monthly income, highest levels of education, respondents’ occupancies and marital status. Regarding the gender of the respondents, the findings show that the majority (56.2%) of the respondents were males, while the females accounted for 43.8% of the respondents. Based on the respondents’ age categories, the findings show that more than half (52.1%) of the respondents were within the age category of 20 to 29 years. The other age categories accounted for 47.9% cumulatively.

According to the monthly income figures of the respondents, a large proportion (36.3%) of the respondents’ monthly income was between Ksh10001 to Ksh 20000. Other income categories accounted for a cumulative percentage of 63.7%. The highest level of education findings shows that a large proportion (45.4%) of the respondents had some form of professional training. However, primary level and be-
low, secondary level, undergraduate and postgraduate levels of education accounted for 54% of respondents cumulatively. Based on the respondents’ occupations, two fifths (40%) of the respondents were employed in the private sector. Civil servants accounted for 16.5%, business people accounted for 31.5% while non-employed responses accounted for 11% of the total. Based on the marital status of the respondents, the findings show that almost half (49.2%) of the respondents were married. The respondents who were single accounted for 44.8%, divorced accounted for 2.7%, separated accounted for 2.1%, while the widowed accounted for 1.2%. The mean and standard deviations were calculated as shown in the Table 8.3.
Table 8.3: Demographic Information of the Respondents

<table>
<thead>
<tr>
<th>Socio-economic Factors</th>
<th>Frequency (n)</th>
<th>Percent (%)</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender of the respondents</td>
<td>Male</td>
<td>292</td>
<td>56.2</td>
<td>260</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>228</td>
<td>43.8</td>
<td></td>
</tr>
<tr>
<td>Respondents’ age categories</td>
<td>Below 20 years</td>
<td>27</td>
<td>5.2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>20 to 29 years</td>
<td>271</td>
<td>52.1</td>
<td>104</td>
</tr>
<tr>
<td></td>
<td>30 to 39 years</td>
<td>156</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td></td>
<td>40 to 49 years</td>
<td>50</td>
<td>9.6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Above 50 years</td>
<td>16</td>
<td>3.1</td>
<td></td>
</tr>
<tr>
<td>Monthly income category (in Ksh)</td>
<td>Less than 10000</td>
<td>161</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Between 10001 to 20000</td>
<td>189</td>
<td>36.3</td>
<td>104</td>
</tr>
<tr>
<td></td>
<td>Between 20001 to 30000</td>
<td>82</td>
<td>15.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Between 30001 to 40000</td>
<td>41</td>
<td>7.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Above 40000</td>
<td>47</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Highest level of education</td>
<td>Primary and below</td>
<td>23</td>
<td>4.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Secondary level</td>
<td>120</td>
<td>23.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tertiary level</td>
<td>236</td>
<td>45.4</td>
<td>86.66666667</td>
</tr>
<tr>
<td></td>
<td>Undergraduate</td>
<td>117</td>
<td>22.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Postgraduate</td>
<td>21</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>others</td>
<td>3</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Respondents’ occupations</td>
<td>Civil servants</td>
<td>86</td>
<td>16.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Employed in private sector</td>
<td>208</td>
<td>40</td>
<td>115.75</td>
</tr>
<tr>
<td></td>
<td>Business person</td>
<td>164</td>
<td>31.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-employed</td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>5</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Marital status</td>
<td>Single</td>
<td>233</td>
<td>44.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Married</td>
<td>256</td>
<td>49.2</td>
<td>104</td>
</tr>
<tr>
<td></td>
<td>Divorced</td>
<td>11</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Separated</td>
<td>14</td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Widowed</td>
<td>6</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>Overall Total (N)</td>
<td>520</td>
<td>100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8.4.2 Relationship between the Socio-economic Factors and Customer Satisfaction

The first objective of the study sought to assess the relationship between socio-economic factors and customer satisfaction in Kenyan banks. The Pearson Chi-square tests analysis were conducted on each socio-economic factor. The test was performed at the 0.05 (5%) level of significance and the findings are shown in Table 8.4. It is evident that the factors that were found to have statistically significance at the 5% level of significance included age, monthly income and highest level of education since their P-values were less than 0.05 (P>0.05).

In addition, the test also revealed that gender, respondents’ occupations and marital status were not statistically significant since their P-values were greater than 0.05 (5%). This means a relationship exists between age and customer satisfaction, monthly income and customer satisfaction, highest level of education and customer satisfaction. In order to assess the nature and direction of the relationship among these factors, a Spearman’s Rho Correlation Analysis was conducted which is shown in the next sub-section.

Table 8.4: Pearson Chi-Square Tests Analysis

<table>
<thead>
<tr>
<th>Socio-economic Factors versus Customer Satisfaction</th>
<th>Pearson Chi-square Tests Value</th>
<th>df</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender vs customer satisfaction</td>
<td>30.353</td>
<td>33.0</td>
<td>0.600</td>
</tr>
<tr>
<td>Age categories vs customer satisfaction</td>
<td>202.982</td>
<td>132.0</td>
<td>0.001*</td>
</tr>
<tr>
<td>Monthly income vs customer satisfaction</td>
<td>167.176</td>
<td>132.0</td>
<td>0.021*</td>
</tr>
<tr>
<td>Level of education vs customer satisfaction</td>
<td>229.988</td>
<td>165.0</td>
<td>0.001*</td>
</tr>
<tr>
<td>Respondents’ occupancies vs customer satisfaction</td>
<td>135.054</td>
<td>132.0</td>
<td>0.410</td>
</tr>
<tr>
<td>Marital status vs customer satisfaction</td>
<td>103.443</td>
<td>132.0</td>
<td>0.969</td>
</tr>
</tbody>
</table>

The test was done at the 0.05 (5%) level of significance.

* Means that the stated variable was significant (P-value<0.05)
8.4.3 Strength and Direction of the Relationship

A Spearman Correlation Test was performed whereby the correlation coefficient was computed. A correlation coefficient ranges from -1 to +1 (George and Mallery, 2003). The sign of the correlation coefficient indicates the direction of the relationship (positive or negative). The absolute value of the correlation coefficient indicates the strength, with larger absolute values indicating stronger relationships. If the significance level (P-value) is very small (less than 0.05) then the correlation is significant and the two variables are linearly related. If the significance level is relatively large (greater than 0.05) then the correlation is not significant and the two variables are not linearly related. Even if the correlation between two variables is not significant the variables may be correlated but the relationship is not linear. The Spearman Correlation Analysis is shown in Table 8.5.

Table 8.5: Spearman Correlation Analysis

<table>
<thead>
<tr>
<th>Socio-economic Factor</th>
<th>Correlation coefficient</th>
<th>Customer Satisfaction</th>
<th>Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>-.030</td>
<td>Negative correlation</td>
<td></td>
</tr>
<tr>
<td>P-value</td>
<td>.497</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>520</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly income</td>
<td>.144</td>
<td>Positive correlation</td>
<td></td>
</tr>
<tr>
<td>P-value</td>
<td>.001*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>520</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level of education</td>
<td>.012</td>
<td>Positive correlation</td>
<td></td>
</tr>
<tr>
<td>P-value</td>
<td>.785</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>520</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Negative correlation coefficient indicates an inverse relationship.
*Indicate significance at 5% (P<0.05).
The findings in Table 8.5 show a negative correlation coefficient regarding age (-0.03) which is not significant (P>0.05) implying that the age of the customer has a negative correlation with customer satisfaction. In addition, the monthly income (0.144) and the level of education (0.012) have a positive correlation with customer satisfaction. In addition, the significant p-value (P<0.05) of monthly income shows a linear relationship between monthly income and customer satisfaction. However, the low values for the test statistics indicate that the relationship between the two variables is a fairly weak one. The findings imply that both monthly income and level of education have an impact on customer satisfaction. Age is not a factor when it comes to customer satisfaction.

8.4.4 Relationship between Socio-economic Factors and Customer Retention

This section sought to test the existence of a relationship between the various socio-economic factors and customer retention. A Pearson Chi-Square Test was performed and the findings are shown in Table 8.6. It is evident that age, monthly income and level of education were significant factors at 5% since their P-values were less than 0.05 or 5% (P<0.05). This shows that there is a relationship between: age and customer retention, monthly income and customer retention, level of education and customer retention in Kenyan banks.
Table 8.6: Socio-economic Factors versus Customer Retention

<table>
<thead>
<tr>
<th></th>
<th>Pearson Chi-square Tests</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Chi-square Statistic</td>
</tr>
<tr>
<td>Gender vs customer retention</td>
<td>24.360</td>
</tr>
<tr>
<td>Age vs customer retention</td>
<td>141.474</td>
</tr>
<tr>
<td>Monthly income vs customer retention</td>
<td>138.808</td>
</tr>
<tr>
<td>Level of education vs customer retention</td>
<td>200.315</td>
</tr>
<tr>
<td>Respondents’ occupations vs customer retention</td>
<td>126.514</td>
</tr>
<tr>
<td>Marital status vs customer retention</td>
<td>97.678</td>
</tr>
</tbody>
</table>

* Indicate significance at 5 % (P<0.05).

8.4.5 Hypothesis One (H₁₁)

The first hypothesis of this study stated that there is a correlation between socio-economic factors and customer satisfaction in Kenyan banks. In order to test this hypothesis a Pearson correlation statistical test was done whereby the correlation coefficient was computed and the level of significance established. The findings for this test are shown in Table 8.7.

The null and the alternative hypotheses for hypothesis one were as follows:

H₀: There is no correlation between socio-economic factors and customer satisfaction in Kenyan banks.
H₁: There is a correlation between socio-economic factors and customer satisfaction in Kenyan banks.
The findings in Table 8.7 show a positive correlation of 0.065 with a P-value of 0.141. This leads to a rejection of the null hypothesis which stated that there is no correlation between socio-economic factors and customer satisfaction in Kenyan banks and accepting the alternate hypothesis stating there is a correlation between socio-economic factors and customer satisfaction in Kenyan banks. However, the test reveals low values of the test statistics which indicates that the relationship between the two variables is a fairly weak one. In addition, the insignificant P-values (P>0.05) show that the two variables are correlated but in a non-linear manner.

### 8.4.6 Hypothesis Two (H1,2)

The second hypothesis of this study stated that there is a correlation between socio-economic factors and customer retention in Kenyan banks. In order to test this hypothesis both the Chi-square test and a Pearson correlation statistical test were done whereby the correlation coefficient was computed and the level of significance established. The findings for this test are shown in Table 8.8.

The null and the alternative hypotheses for hypothesis two were as follows:
H₀: There is no correlation between socio-economic factors and customer retention in Kenyan banks.

H₁: There is a correlation between socio-economic factors and customer retention in Kenyan banks.

The results of the Chi-square tests presented in Table 8.8 reveal a significance level at 0.05 (5%) since the P-value of the test was less than 0.5 (P<0.05). This means that there is a relationship between the socio-economic factors and customer retention in Kenyan banks. The result of the correlation test is shown in Table 8.8.

**Table 8.8: Chi-Square Tests for Socio-economic Factors and Customer Retention**

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>P-Value</th>
<th>Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-square</td>
<td>552.081</td>
<td>351</td>
<td>.000</td>
<td>Significant</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>520</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 8.9: Pearson Correlation for Hypothesis Two**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Socio-economic Factors</th>
<th>Customer Retention</th>
<th>Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Socio-economic Factors</td>
<td>Pearson Correlation 1</td>
<td>0.067</td>
<td>Positive Correlation</td>
</tr>
<tr>
<td>P-value</td>
<td>-</td>
<td>0.125</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>520</td>
<td>520</td>
<td></td>
</tr>
<tr>
<td>Customer Retention</td>
<td>Pearson Correlation 0.067</td>
<td>1</td>
<td>Reject H₀</td>
</tr>
<tr>
<td>P-value</td>
<td>0.125</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>520</td>
<td>520</td>
<td></td>
</tr>
</tbody>
</table>

The results presented in Table 8.9 show a positive Pearson Correlation of 0.067 with a non significant P-value of 0.125 (P>0.05). This leads to rejecting the null hypothe-
sis and accepting the alternative hypothesis that there is a correlation between socio-economic factors and customer retention in Kenyan banks. However, the low values of the test statistics indicate a fairly weak relationship between the two variables. In addition, the non significant P-value indicates that the two variables are non-linearly correlated.

8.5 Bank-related Factors

This section discusses whether bank-related factors influence customer satisfaction in Kenyan banks. Consequently, the third and fourth hypotheses are tested toward the end of this section since they focused on the bank-related factors.

8.5.1 Bank-related Factors

This study sought to assess the specific aspects of a bank that play a crucial role in ensuring customer satisfaction and retention in the Kenyan banking industry. In order to achieve this, the respondents were presented with various statements and were expected to rate the extent to which they agreed or disagreed with these statements so as to assess the extent to which these aspects affected their overall levels of satisfaction with the bank’s products/services. A five-point Likert scale was used. This scale was appropriate because of the different levels of understanding of the respondents' unlike the seven or the ten-point point Likert scale that requires respondents who are experts in the issues being investigated (Mugenda and Mugenda, 2003). The Likert scale comprised of strongly agree, agree, neutral, disagree and strongly disagree. The findings are presented in Table 8.10. The findings show that slightly more than two fifths (42.6%) of the respondents agreed with the statements that their banks usually send accurate statements on time. Those who indicated that the banks’ staff understands the customers’ specific needs for financial services were 44.2% and those who reported that the bank has never asked the customers’ what they need comprised of 44.6% of the total.

The majority of the respondents were neutral on the following issues: their banks’ products are suited to their needs (43.7%), the waiting period in the banking hall is minimal and hardly noticeable (35.4%), the customers can always access the bank
management anytime they need anything (31.7%), the customers were usually content with the services they from the bank (36.3%), the bank's staff usually followed through on their promises (36.3%) and the bank's staff were able to handle most of customers’ questions satisfactorily (42.1%).

In addition, the findings further show that most of the respondents disagreed with the following statements: The bank offers entertainment and refreshments to its customers (62.5%), the bank network is adequate and ensures accessibility in all regions (56.5%), the bank's staff meet the customers with a smile when they arrive in the banking hall (52%), the bank's staff are never too busy to respond to customers requests (46.5%), the bank usually communicates to customers proactively (47.2%). These findings were computed on cumulative responses based on the level of the customer disagreement on the statements. The mean and standard deviations are also given and findings are shown in Table 8.10.
### Table 8.10: Bank-related Factors

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>My bank’s products are suited to my needs</td>
<td>20.4%</td>
<td>24.4%</td>
<td>43.7%</td>
<td>9.0%</td>
<td>2.5%</td>
<td>4.2391</td>
<td>1.16866</td>
</tr>
<tr>
<td>The bank offers entertainment and refreshments</td>
<td>6.7%</td>
<td>17.1%</td>
<td>13.7%</td>
<td>26.5%</td>
<td>36.0%</td>
<td>3.8261</td>
<td>1.22572</td>
</tr>
<tr>
<td>The bank network is adequate and ensures accessibility in all regions</td>
<td>5.4%</td>
<td>15.4%</td>
<td>22.7%</td>
<td>32.7%</td>
<td>23.8%</td>
<td>4.0652</td>
<td>1.33020</td>
</tr>
<tr>
<td>The waiting period is minimal, hardly noticeable</td>
<td>7.9%</td>
<td>21.3%</td>
<td>35.4%</td>
<td>23.3%</td>
<td>12.1%</td>
<td>4.0217</td>
<td>1.57289</td>
</tr>
<tr>
<td>The bank’s staff meet me with a smile when I arrive in the banking hall</td>
<td>9.4%</td>
<td>16.5%</td>
<td>22.1%</td>
<td>28.3%</td>
<td>23.7%</td>
<td>2.0870</td>
<td>1.71076</td>
</tr>
<tr>
<td>I can always access the bank management anytime I need anything</td>
<td>13.1%</td>
<td>28.8%</td>
<td>31.7%</td>
<td>17.5%</td>
<td>8.8%</td>
<td>3.5435</td>
<td>1.43022</td>
</tr>
<tr>
<td>Statements are sent to me on time and are accurate</td>
<td>11.3%</td>
<td>31.3%</td>
<td>23.1%</td>
<td>17.7%</td>
<td>16.5%</td>
<td>3.4348</td>
<td>1.50404</td>
</tr>
<tr>
<td>I am usually content with the services I get from the bank</td>
<td>11.5%</td>
<td>32.1%</td>
<td>36.3%</td>
<td>12.9%</td>
<td>7.1%</td>
<td>3.7609</td>
<td>1.45268</td>
</tr>
<tr>
<td>The bank usually communicates to me proactively</td>
<td>11.5%</td>
<td>20.0%</td>
<td>21.3%</td>
<td>31.2%</td>
<td>16.0%</td>
<td>3.6957</td>
<td>1.53599</td>
</tr>
</tbody>
</table>
The findings in Table 8.10 imply that most of the banks send their customers accurate statements which are usually on time and the bank's staff understands the specific needs of their customers' financial services. However, the bank has never asked their customers what they actually needed.

In addition, the findings further implies that most Kenyan banks do not offer their customers adequate entertainment and refreshments as they wait to be served, most of the banks’ networks are not adequate and accessible countrywide, the banks’ staff do not usually welcome their customers with a smile when they arrive in the banking hall, the bank's staff are sometimes too busy to respond to customers' requests and the banks do not usually communicate to their customers proactively.
8.5.2 Number of Bank Accounts Held

The study sought to establish the number of bank accounts held by the respondents. The findings show that less than half (46%) of the respondents held only one bank account with the rest of the respondents (54%) holding more than one bank account.

Table 8.11: Number of Bank Accounts Held

<table>
<thead>
<tr>
<th>Number of Accounts</th>
<th>Frequency (n)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>239</td>
<td>46.0</td>
</tr>
<tr>
<td>Two</td>
<td>181</td>
<td>34.8</td>
</tr>
<tr>
<td>Three</td>
<td>67</td>
<td>12.9</td>
</tr>
<tr>
<td>Four</td>
<td>15</td>
<td>2.9</td>
</tr>
<tr>
<td>Five and Above</td>
<td>18</td>
<td>3.5</td>
</tr>
<tr>
<td>Total</td>
<td>520</td>
<td>100.0</td>
</tr>
</tbody>
</table>

8.5.3 Relationship between the Number of Bank Accounts Held and Customer Satisfaction

Spearman’s Rho Correlation Analysis was performed to establish the relationship between the number of bank accounts held and customer satisfaction. The correlation coefficient was computed as shown in Table 8.12.

Table 8.12: Number of Bank Accounts Held versus Customer Satisfaction

<table>
<thead>
<tr>
<th>Number of bank accounts held</th>
<th>Correlation coefficient</th>
<th>Customer Satisfaction</th>
<th>Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>`-0.035</td>
<td>`</td>
<td><code>Negative correlation</code></td>
</tr>
<tr>
<td>P-value</td>
<td>0.425</td>
<td>`</td>
<td>`</td>
</tr>
<tr>
<td>N</td>
<td>520</td>
<td>`</td>
<td>`</td>
</tr>
</tbody>
</table>

The test was done at 5% (0.05) level of significance.
A negative correlation coefficient indicates an inverse relationship between the two variables.

The findings in Table 8.12 show a negative correlation coefficient for the number of bank accounts held (-0.035) and customer satisfaction which is not statistically significant (P>0.05) implying that the number of bank accounts held has a negative correlation with customer satisfaction. In addition, the low values for the test statistics indicate that the relationship between the two variables is a fairly weak one. The negative correlation between the number of bank accounts held and customer satisfaction indicates an inverse relationship which means that the number of accounts a customer has very minimal impact on their level of satisfaction and vice versa.

8.5.4 Customers’ Visit to the Bank

The respondents were asked to state whether their visits to the bank always entailed seeing a bank staff member. The findings presented in Table 8.13 show that only a minority (26.2%) of the respondents answered this question in the affirmative. The majority (73.8%) answered otherwise. This shows that most of the customers’ visits to the bank did not necessarily entail seeing a bank staff member.

Table 8.13: Whether a Visit to the Bank Always Entails Seeing a Bank Staff Member

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency (n)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>136</td>
<td>26.2</td>
</tr>
<tr>
<td>No</td>
<td>384</td>
<td>73.8</td>
</tr>
<tr>
<td>Total</td>
<td>520</td>
<td>100.0</td>
</tr>
</tbody>
</table>

8.5.5 Reasons for Seeing the Bank Staff

The study sought to establish the main reason why customers sought to see the banks’ staff during their last bank visit. The findings in Figure 8.1 show that 38.2% of the respondents had a complaint, 25.7% had unresolved queries, 20% was a normal
call while 15.4% paid a courtesy call. Although this question was asked at a certain point in time, it reveals that most customers were unsatisfied with the banks’ services or products as shown by the high number of complaints and unresolved queries the customers had (45.7% cumulative responses).

Figure 8.1: Reasons for Seeing the Bank Staff

8.5.6 Hypothesis Three (H₁₃)

The third hypothesis of the study stated that there is a relationship between bank-related factors and customer satisfaction in Kenyan banks. In order to test this hypothesis, both the Chi-square test and a Pearson correlation statistical test were done whereby the correlation coefficient was computed and the level of significance established. The findings for this test are shown in Tables 8.14 and 8.15 respectively.

The null and the alternate hypotheses for hypothesis three were as follows:

H₀: There is no relationship between bank-related factors and customer satisfaction in Kenyan banks.
H₁: There is a relationship between bank-related factors and customer satisfaction in Kenyan banks.

The results of the Chi-square tests presented in Table 8.14 reveal a significance relationship at 0.05 (5%) since the P-value of the test was less than 0.05 (P<0.05). This leads to rejecting the null hypothesis and accepting the alternate hypothesis stating that there is a relationship between bank-related factors and customer satisfaction in Kenyan banks. This means that there is a significant relationship between the bank-related factors and customer retention in Kenyan banks. In order to test the direction of the relationship, a correlation test was performed and the results are shown in Table 8.14.

**Table 8.14 : Chi-Square for Hypothesis Three**

<table>
<thead>
<tr>
<th></th>
<th>Values</th>
<th>df</th>
<th>P-values</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>3687.655</td>
<td>1617</td>
<td>.000</td>
<td>Reject H₀</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>246.064</td>
<td>1</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>520</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The results presented in Table 8.15 show a positive Pearson Correlation of 0.689 with a significant P-Value of 0.000 (P<0.05). The high values of the test statistics indicate a strong relationship between the two variables. In addition, the significant P-Value (P<0.05) indicates that the two variables are linearly correlated with a high probability or likelihood of occurrence. This means that a proportionate positive change or improvement in bank-related factors leads to increased customer satisfaction in the Kenyan banking industry and vice versa.
Table 8.15: Pearson Correlation for Hypothesis Three

<table>
<thead>
<tr>
<th></th>
<th>Bank-related Factors</th>
<th>Customer Satisfaction</th>
<th>Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bank-related Factors</strong></td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.689*</td>
</tr>
<tr>
<td><strong>P-value</strong></td>
<td>-</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>520</td>
<td>520</td>
<td></td>
</tr>
<tr>
<td><strong>Customer Satisfaction</strong></td>
<td>Pearson Correlation</td>
<td>.689*</td>
<td>1</td>
</tr>
<tr>
<td><strong>P-Value</strong></td>
<td>.000</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>520</td>
<td>520</td>
<td></td>
</tr>
</tbody>
</table>

Correlation is significant at the 0.05 significance level.

The next sub-section shows the result for hypothesis four and its interpretation.

8.5.7 Hypothesis Four (H₁,₄)

The fourth hypothesis of the study stated that there is a relationship between bank-related factors and customer retention in Kenyan banks. In order to test this hypothesis both the Chi-square test and a Pearson correlation statistical test were done whereby the correlation coefficient was computed and the level of significance established. The findings for this test are shown in Tables 8.16 and 8.17 respectively.

The null and the alternate hypotheses for hypothesis four were as follows:

H₀: There is no relationship between bank-related factors and customer retention in Kenyan banks.

H₁: There is a relationship between bank-related factors and customer retention in Kenyan banks.
The results of the Chi-square tests presented in Table 8.16 reveal a significant relationship at 0.05 (5%) since the P-value of the test was less than 0.05 (P<0.05). This leads to rejecting the null hypothesis and accepting the alternative hypothesis which stated there is a relationship between bank-related factors and customer retention in Kenyan banks. This means that there is a significant relationship between the bank-related factors and customer retention in Kenyan banks. In order to test the strength and the direction of the relationship a correlation test was done and the results are shown in Table 8.17.

**Table 8.16: Chi-Square for Hypothesis Four**

<table>
<thead>
<tr>
<th></th>
<th>Values</th>
<th>df</th>
<th>P-values</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>2345.863</td>
<td>1323</td>
<td>.000</td>
<td>Reject H_0</td>
</tr>
<tr>
<td>Linear-by-Linear Assoc.</td>
<td>74.081</td>
<td>1</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>520</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 8.17: Pearson Correlation for Hypothesis Four**

<table>
<thead>
<tr>
<th></th>
<th>Bank-related Factors</th>
<th>Customer Retention</th>
<th>Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank-related Factors</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.378</td>
</tr>
<tr>
<td></td>
<td>P-value</td>
<td>-</td>
<td>.000*</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>520</td>
<td>520</td>
</tr>
<tr>
<td>Customer Retention</td>
<td>Pearson Correlation</td>
<td>0.378</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>P-value</td>
<td>.000*</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>520</td>
<td>520</td>
</tr>
</tbody>
</table>

* Means significant at the 0.05 significance level.

The results presented in Table 8.17 show a positive Pearson Correlation of 0.378 with a significant P-value of 0.000 (P<0.05). However, the high values of the test
statistics indicate a fairly strong relationship between the two variables. In addition, the significant P-value (P<0.05) indicates that the two variables are linearly correlated. This means that a proportionate positive change or improvement in bank-related factors leads to increased customer retention in the Kenyan banking industry and vice versa.

The next section discusses the strategies known to customers and employed by banks to guarantee customer satisfaction and retention.

8.6 Banks’ Strategies to Ensure Customer Satisfaction and Retention

This section aimed at meeting the third objective of the study which sought to identify the various strategies known to customers and employed by Kenyan banks to ensure customer satisfaction and customer retention. Key areas discussed in this section included market research, entertainment, mechanism for feedback, inspiration for confidence and trust, involvement in banks’ product development, methods used to evaluate customer satisfaction and overall rating of customer satisfaction. The findings were presented as shown below.

8.6.1 Strategies Employed by Banks to Ensure Customer Satisfaction and Retention

In order to assess the strategies that were known to customers and used by Kenyan banks, the respondents were presented with the various strategies and were asked to affirm whether they were applicable to their respective banks. The findings presented in Table 8.18 shows that the majority of the respondents answered in the affirmative on the bank inspiring confidence and trust strategy as accounted by 85.8% (yes response) while most of the respondents answered no; market research (61.2%), entertainment (61.9%), provision of mechanism for feedback (65%) and customers’ involvement in banks’ product development (78.8%). This shows that inspiring confidence and trust was the major strategy known to most customers as geared toward their satisfaction. However, conducting customers’ market research,
provision of entertainment, provision of a mechanism for feedback and customer involvement in banks' product development were either not present and where they were present, the customers did not recognise them as strategies geared towards their satisfaction.

**Table 8.18: Strategies to Ensure Customer Satisfaction and Retention**

<table>
<thead>
<tr>
<th>Banks' Strategies</th>
<th>Yes</th>
<th></th>
<th></th>
<th>No</th>
<th></th>
<th></th>
<th>Total</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>n</td>
<td>%</td>
<td></td>
<td>n</td>
<td>%</td>
<td></td>
<td>n</td>
<td>%</td>
</tr>
<tr>
<td>Whether banks carry out regular market research</td>
<td>202</td>
<td>38.8%</td>
<td>318</td>
<td>61.2%</td>
<td>520</td>
<td>100.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether banks provide enough entertainment to make the customer comfortable</td>
<td>198</td>
<td>38.1%</td>
<td>322</td>
<td>61.9%</td>
<td>520</td>
<td>100.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether banks provide a mechanism for feedback</td>
<td>182</td>
<td>35.0%</td>
<td>338</td>
<td>65.0%</td>
<td>520</td>
<td>100.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether banks inspire confidence and trust when dealing with customers</td>
<td>446</td>
<td>85.8%</td>
<td>74</td>
<td>14.2%</td>
<td>520</td>
<td>100.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Involvement in banks’ product development</td>
<td>110</td>
<td>21.2%</td>
<td>410</td>
<td>78.8%</td>
<td>520</td>
<td>100.0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**8.6.2 Level of Customers' Involvement in Banks' Product Development**

Findings in Table 8.18 show that only 21.2% of the respondents were involved in banks’ product developments. Out of those involved, the study sought to establish the extent of their involvement. The findings presented in Figure 8.2 show that most (46.4%) of the respondents were slightly involved in the product development, 38.2% were fairly involved while 15.5% were greatly involved. This shows that key decisions and strategies for product development do not involve the customers contributing to their low levels of satisfaction with the banks’ products and services.
8.6.3 Methods Used by Banks to Evaluate Customer Satisfaction

The respondents were presented with the various methods used by banks to evaluate customer satisfaction and were expected to tick the methods that were used by their banks to evaluate their levels of satisfaction. A multiple response analysis approach was used to analyse the responses and the methods were ranked starting with the one that had the highest score. In this case, each of the methods used by the bank was analysed through multiple response analyses independent of each other, where after the ranking was done for all the methods based on the scores obtained in the test. The findings are shown in Table 8.19. The findings show that the suggestion boxes, questionnaires in the banking hall and the follow-up telephone calls had the highest scores as accounted by 65.9%, 27.3% and 18.8% respectively. This shows that the use of suggestion boxes was widely used by most banks to evaluate customer satisfaction.
Table 8.19: Methods Used by Banks to Evaluate Customer Satisfaction

<table>
<thead>
<tr>
<th>Methods</th>
<th>Frequency (n)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suggestion boxes</td>
<td>326</td>
<td>65.9%</td>
</tr>
<tr>
<td>Questionnaires in the banking hall</td>
<td>135</td>
<td>27.3%</td>
</tr>
<tr>
<td>Follow-up telephone calls</td>
<td>93</td>
<td>18.8%</td>
</tr>
<tr>
<td>Outsourced firm</td>
<td>41</td>
<td>8.3%</td>
</tr>
<tr>
<td>Other</td>
<td>59</td>
<td>11.9%</td>
</tr>
<tr>
<td>Total (N)</td>
<td>495</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

8.6.4 Awareness of Programs to Promote Customer Satisfaction

Results in Table 8.20 show that most (71.5%) of the respondents were unaware of any programs run by the bank to ensure customer satisfaction, whilst only 28.5% of the respondents were aware of at least a program run by the bank to promote customer satisfaction. Those who were aware of the programs run by the banks to promote customer satisfaction identified these programs as advertisements on the highway bill boards, sponsoring of community-based projects, having countrywide branches, installing of 24-hour functional ATM services and offering secondary school fees for the best students in the district.

Table 8.20: Awareness of Programs to Promote Customer Satisfaction

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency (n)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>148</td>
<td>28.5</td>
</tr>
<tr>
<td>No</td>
<td>372</td>
<td>71.5</td>
</tr>
<tr>
<td>Total</td>
<td>520</td>
<td>100.0</td>
</tr>
</tbody>
</table>
8.6.5 Overall Level of Satisfaction with the Bank

The study sought to assess the overall level of satisfaction of customers with their main bank relating to key aspects of the banks. In order to measure this, the respondents were expected to rate the overall level of satisfaction with their main bank on the following aspects: Overall customer service, relationship closeness, competitive fees and charges, listening to the needs of the customer and friendliness of staff. A five point Likert scale was used to measure the findings whereby the means and the standard deviations of the key aspects were computed and were assessed on the following scale: a score of 4.5 – 5 was ranked as very dissatisfied, a score of 3.5 – 4.49 was ranked as dissatisfied, a score of 2.5 – 3.49 was ranked as neutral, a score of 1.5 – 2.49 was ranked as satisfied while a score of was1.0 – 1.49 was ranked as very satisfied. The responses were interpreted and the findings are presented in Table 8.21.

The findings show that most customers were satisfied with overall customer service and relationship closeness as accounted by 2.12 and 2.48 mean scores. However, competitive fees and charges, listening to the needs of the customers and friendliness of staff scored mean scores of 2.66, 2.32 and 2.31 respectively, which was a neutral score. This shows that customers were mainly satisfied by customer service and relationship closeness hence the need for banks to improve other services to meet customers’ demands.
Table 8.21: Overall Level of Satisfaction with Banking Services

<table>
<thead>
<tr>
<th>Banking Services</th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall customer service</td>
<td>520</td>
<td>2.12</td>
<td>0.921</td>
<td>Satisfied</td>
</tr>
<tr>
<td>Relationship closeness</td>
<td>520</td>
<td>2.48</td>
<td>0.987</td>
<td>Satisfied</td>
</tr>
<tr>
<td>Competitive fees and charges</td>
<td>520</td>
<td>2.66</td>
<td>1.127</td>
<td>Neutral</td>
</tr>
<tr>
<td>Listening to the needs of the customer</td>
<td>520</td>
<td>2.32</td>
<td>1.043</td>
<td>Neutral</td>
</tr>
<tr>
<td>Friendliness of staff</td>
<td>520</td>
<td>2.31</td>
<td>1.045</td>
<td>Neutral</td>
</tr>
</tbody>
</table>

The next section analyses the relationship between customer satisfaction and customer retention in Kenyan banks. Various statistical tests have been used to assess the relationship between the two variables. The section concludes by testing the fifth hypothesis.

8.7 Customer Satisfaction and Retention

This section sought to meet the fourth objective of the study, namely to analyse the relationship between customer satisfaction and customer retention in Kenyan banks. Various statistical tests have been used to achieve this objective which culminates into testing hypothesis five.

8.7.1 Relationship between Customer Satisfaction and Retention

In order to assess the relationship between customer satisfaction and retention, a Chi-square test as well as Linear-by-Linear association tests were performed whereby the level of significance was established. The results of the Chi-square tests presented in Table 8.22 show a significant P-value (P<0.05). In addition, the test further shows a significant Linear-by-Linear association. This means that there is a linear relationship between customer satisfaction and customer retention in Kenyan banks. This implies that the more customers are satisfied, the more they are likely to be retained by the bank and vice versa.
Table 8.22: Chi-Square Test Analysis

<table>
<thead>
<tr>
<th></th>
<th>Values</th>
<th>df</th>
<th>P-values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-square</td>
<td>1660.965</td>
<td>891</td>
<td>0.000</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>96.772</td>
<td>1</td>
<td>0.000</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>520</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8.7.2 Duration of Banking with the Main Bank

The study sought to establish the duration the respondents had been banking with their current banks. The findings show that almost 60% (59.9%) of the respondents had been banking with their current banks for 1-5 years. Those who had banked with their current banks for less than a year accounted for 15.2% while those who had been banking with their current banks for 6-10 years accounted for 16.3%.

In addition, those who had banked with their current banks for 11-15 years accounted for 5.5% while those who had banked with their current banks for over 15 years accounted for 3.5% as shown in Figure 8.3. This shows that most customers had banked with their current banks for 1 to 5 years have been loyal for the relatively short duration of time considering that most banks have been in existence in Kenya for over 30 years. This number (60%) is significant and actually demonstrates that 60% of bank customers are loyal to their banks.
8.7.3 Customer Alienation by the Banks

The study sought to assess whether the customers felt alienated by their banks. The findings in Table 8.23 show most customers (65.2%) did not feel alienated by their banks, only 34.8% of the customers felt alienated by their banks.

Table 8.23: Feeling of Alienation by the Bank

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency (n)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>181</td>
<td>34.8</td>
</tr>
<tr>
<td>No</td>
<td>339</td>
<td>65.2</td>
</tr>
<tr>
<td>Total</td>
<td>520</td>
<td>100.0</td>
</tr>
</tbody>
</table>
8.7.4 Time spent Waiting During Last Visit to the Bank

The findings in Table 8.24 show that more than half (53.8%) of the customers did not spend most of the time waiting to be served during their last visit to the bank. Those who spend time waiting accounted for 46.2% of the respondents. The main causes for waiting was highlighted by the respondents as long queues at the banking hall, network problems at the ATM stations, too slow processes especially the loan disbursement and very few staff members operating at the counters/tellers.

Table 8.24: Spent Most Time Waiting During Last Visit

<table>
<thead>
<tr>
<th>Reponses</th>
<th>Frequency (n)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>240</td>
<td>46.2</td>
</tr>
<tr>
<td>No</td>
<td>280</td>
<td>53.8</td>
</tr>
<tr>
<td>Total</td>
<td>520</td>
<td>100.0</td>
</tr>
</tbody>
</table>

8.7.5 Description of Waiting in the Bank

The respondents were asked to state one word which would describe their waiting at the banking hall. A total of 42.5% of the respondents described the waiting as acceptable while 4.6% described waiting as enjoyable. Not acceptable, traumatising and stressing and hardly noticeable responses accounted for 52.9% cumulative responses as shown in Figure 8.4. This shows that the waiting in the banking hall is a key issue that needs to be addressed by the banks’ management.
Additionally, the respondents gave suggestions and recommendations of how to make the waiting shorter in the banking halls. These suggestions included employment of more and qualified staff, adoption of a faster network, installation of more ATM stations coupled with corroboration with independent ATM providers like ‘Kenswitch’ which owns numerous ATMs and with the widest ATM networks throughout the country. Other respondents’ suggestions included increasing the number of branches in the regions and adoption of modern computers which are fast and more efficient.

**8.7.6 Switch from the Main Bank**

The findings in Table 8.25 show that the majority (81.9%) of the respondents had never switched from their main banks. Those who had switched from their main banks accounted for 18.1%. Those who had switched from their main banks gave various reasons for switching as network problems, inefficiency in the bank operations and discrimination to some customers especially on loan disbursements, presence of hidden charges, poor service and long waiting times.
8.7.7 Banks have done enough to Retain the Customers

According to the majority of the respondents (55.2), their banks had not done enough to retain them. Those who said the bank had done enough to retain them as customers accounted for 44.8 % as shown in Table 8.26. Those who said the bank had done enough to retain them as customers gave the following reasons for their answers, namely their banks were easily accessible, they were satisfied with the services offered, the staff served them very well and gave financial advice, they had updated databases and they responded to customers’ issues any time they wanted their assistance.

Table 8.26: Banks’ Effort to Retain Customers

<table>
<thead>
<tr>
<th></th>
<th>Frequency (n)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>233</td>
<td>44.8</td>
</tr>
<tr>
<td>No</td>
<td>287</td>
<td>55.2</td>
</tr>
<tr>
<td>Total</td>
<td>520</td>
<td>100.0</td>
</tr>
</tbody>
</table>

8.7.8 Duration Customers are likely to stay with their Main Banks

The respondents were asked to state the duration they were likely to stay with their main banks. The findings show that more than half of the respondents (53.7%) were not sure of the duration they were likely to stay with their main banks. Forever, less
than one year, 1 to 5 years and over 5 years responses accounted for 46.4% cumulatively as shown in Figure 8.5.

**Figure 8.5: Duration Customers are Likely to stay with their Main Banks**

![Bar chart showing duration customers are likely to stay with their main banks.](image)

8.7.9 Preferred Means of Receiving Banks' Communication

The respondents were asked to state the preferred means of receiving communication from their banks. Through multiple response analysis, the findings showed that phone calls (48.7%) was the most preferred, followed by short message services (42.6%) which was followed by email (37.0%). Other modes such as letters, electronic media like TV and newspapers accounted for 35.0%, 28.9% and 22.0% respectively as shown in Table 8.27. This shows that phone calls, SMS’s and emails were the most preferred means of receiving communication from the bank hence the need for their adoption by the banks as means of communication.
Table 8.27: Preferred Means of Receiving Banks’ Communication

<table>
<thead>
<tr>
<th>Means of Receiving Banks’ Communication</th>
<th>Frequency (n)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phone calls</td>
<td>246</td>
<td>48.7%</td>
</tr>
<tr>
<td>SMS</td>
<td>215</td>
<td>42.6%</td>
</tr>
<tr>
<td>Email</td>
<td>187</td>
<td>37.0%</td>
</tr>
<tr>
<td>Letter</td>
<td>177</td>
<td>35.0%</td>
</tr>
<tr>
<td>Electronic media like TV</td>
<td>146</td>
<td>28.9%</td>
</tr>
<tr>
<td>Newspaper</td>
<td>111</td>
<td>22.0%</td>
</tr>
<tr>
<td>Total (N)</td>
<td>505</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

8.7.10 Hypothesis Five (H₁₅)

The fifth hypothesis of this study stated that there is a correlation between customer satisfaction and customer retention in Kenyan banks. A Pearson Correlation Test was used to test this hypothesis whereby the Pearson Coefficient was computed.

The null and the alternative hypotheses for hypothesis five were as follows:

H₀: There exists no correlation between customer satisfaction and customer retention in Kenyan banks.
H₁: There exists a correlation between customer satisfaction and customer retention in Kenyan banks.
Table 8.28: A Pearson Correlation Test

<table>
<thead>
<tr>
<th></th>
<th>Customer Satisfaction</th>
<th>Customer Retention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Satis-</td>
<td>Pearson Coefficient</td>
<td>1.000</td>
</tr>
<tr>
<td>faction</td>
<td></td>
<td>0.432**</td>
</tr>
<tr>
<td>P-Value</td>
<td>-</td>
<td>.000*</td>
</tr>
<tr>
<td>N</td>
<td>520</td>
<td>520</td>
</tr>
<tr>
<td>Customer Reten-</td>
<td>Pearson Coefficient</td>
<td>0.432**</td>
</tr>
<tr>
<td>tion</td>
<td></td>
<td>1.000</td>
</tr>
<tr>
<td>P-value</td>
<td>.000*</td>
<td>-</td>
</tr>
<tr>
<td>N</td>
<td>520</td>
<td>520</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level.
** Indicates a positive correlation coefficient.

The findings in Table 8.28 show a positive correlation of 0.432 which is statistically significant (P<0.05). This leads to rejecting the null hypothesis and accepting the alternative hypothesis which stated that a correlation between customer satisfaction and customer retention in Kenyan banks exists. The positive relationship which is statistically significant (P<0.05) also shows that there is a strong linear relationship between the two variables with high probability or the likelihood of occurrence. This means that satisfied customers have a very high probability or the likelihood of being retained in Kenyan banks.

8.8 Other Factors Affecting the Level of Customer Satisfaction

The respondents were asked to state other factors that were not captured in the study but affecting their levels of satisfaction with banks’ products and services. The respondents stated various factors that affected their levels of satisfaction as follows:

1. Poor communication of the banks with its customers;
2. Slow services resulting in long queues in the banking halls;
3. Discrimination where rich customers are given preferential and prestigious treatment at the expense of average and low class customers such as being given drinks and other refreshments as they wait to be served;
4. Very high interest rates especially on loan repayments;
5. Poor attendance and negligence of customers;
6. Poor access to senior staff for enquiries and complaints;
7. Presence of many hidden charges which are not properly stated when a customer is opening an account;
8. Unfriendly staff;
9. Presence of ATM services in non-secure places;
10. High ATM charges;
11. Lack of value and recognition of low income earning customers;
12. System breakdowns and failures;
13. Poorly serviced ATM machines resulting in long queues at the ATMs;
14. Lack of sufficient and qualified staff; and
15. Lack of provision of washrooms in the banking halls.

8.9 Testing of the Regression Model

Multiple regression analysis is a descriptive statistical tool used in three situations, namely to predict values for a criterion variable from the values of several predictor variables; in order to control variables to evaluate the contribution of other variables better and to test and explain casual relationships (Leedy and Ormrod, 2003). For this study, multiple regression analysis was used to test and explain the casual relationships between variables.

Multiple linear regression analysis was performed to test whether the independent variables have an impact on the dependent variable and to assess the influence of the independent variable on the dependent variable. Before the regression model was tested, it was necessary to carry out an Analysis of Variance (ANOVA) Test to test for the variations in both the independent and dependent variables of the model. The next sub-section shows the results of the Analysis of Variance (ANOVA).

8.9.1 Analysis of Variance (ANOVA)
The ANOVA test was done to test the variations among the various variables in the regression model adopted in the study. ANOVA tests the equality of the means of the various variables in the study. The assumptions of the test were that the data was collected from a normally distributed population and that the variances were equal.

The results of the ANOVA test were interpreted as follows: if the significance value of the F-statistic is small (smaller than 0.05) then the independent variables explain the variation in the dependent variable. If the significance value of F is larger than 0.05 then the independent variable does not explain the variation in the dependent variable (Cooper and Schindler, 2003). The findings are shown in Table 8.29.

**Table 8.29: ANOVA Test**

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F-statistic</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>125.491</td>
<td>2</td>
<td>62.745</td>
<td>235.589</td>
<td>0.001</td>
</tr>
<tr>
<td>Residual</td>
<td>137.694</td>
<td>517</td>
<td>0.266</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>263.185</td>
<td>519</td>
<td>0.266</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Independent variables: Bank-related factors and socio-economic factors
Dependent Variable: Customer satisfaction

The ANOVA test presented in Table 8.29 indicated an F-statistic of 235.589 with a P-value of 0.001 (P<0.05). This shows that the regression model was significant (P<0.05) which means that independent variables explain the variation in the dependent variable. It also implies that each independent variable has its own unique relationship/effect on the dependent variable hence the justification of establishing the effect of individual independent variables on the dependent variables through the use of multiple linear regression analysis.
8.9.2 Multiple Linear Regression Analysis

A multiple linear regression model was developed to assess the effects of various independent variables on the dependent variable of the study. This model was composed of both the dependent and independent variables. The dependent variable of the study was customer satisfaction while the independent variables were bank-related factors and socio-economic factors. Independent variables were captured in section one of the questionnaire while the dependent variable, customer satisfaction was captured in section two. The multiple linear regression analysis was able to show which of the independent variables namely socio-economic factors and bank related factors had the biggest impact on customer satisfaction as this was the main objective of the study. The significant variables were therefore extracted by applying the t-test to the independent variables at the 0.05 (5%) level of significance.

The following Multiple Linear Regression Model was used:

Equation 8.1: A Multiple Linear Regression Model One

\[ Y = \alpha_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n + \varepsilon \]

Where:  
- \(Y\) - customer satisfaction (dependent variable)  
- \(X_{1-n}\) - independent variables whereby \(X_1=\) bank-related factor and \(X_2=\) socio-economic factor  
- \(\alpha_0\) - alpha coefficient/constant  
- \(\beta_{1-n}\) - regression coefficients  
- \(\varepsilon\) - error term F-statistic

Table 8.30: Multiple Linear Regression Analysis
### Independent Variables

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Beta Coefficients ($\beta$)</th>
<th>T-statistics</th>
<th>P-values</th>
<th>Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant ($\alpha_0$)</td>
<td>0.337</td>
<td>2.038</td>
<td>0.042*</td>
<td></td>
</tr>
<tr>
<td>Socio-economic factor ($X_1$)</td>
<td>0.095</td>
<td>1.635</td>
<td>0.103</td>
<td>Not Significant</td>
</tr>
<tr>
<td>Bank-related factor ($X_2$)</td>
<td>.783</td>
<td>21.611</td>
<td>0.001*</td>
<td>Significant</td>
</tr>
</tbody>
</table>

Dependent variable: Customer satisfaction

* Significant P-value at 0.05 (P<0.05)
* Denotes significance at 5% critical level (P-values < 0.05)

The findings presented in Table 8.30 show that the bank-related factors like easy accessibility of bank management, adequate network to ease accessibility to banking services, minimising waiting period in banking halls, friendly and sensitive bank staff who understand customer’s needs, banks sending customers accurate bank statements timeously and knowledgeable staff who can resolve customer queries to conclusion were statistically significant since its P-value was less than the 0.05 (5%) level of significance while the socio-economic factors were not statistically significant since its p-value was greater than the 0.05 (5%) level of significance as shown in Table 8.30. The non-significant variable was therefore removed from the model since it was found to have no significant effect on the dependent variable. Thus, the new regression model appears as shown in equation 8.2.

Equation 8.2: A Multiple Linear Regression Model Two

$$Y = \alpha_0 + \beta_1 X_1 + \varepsilon$$

Equation 8.2 shows that bank-related factors were the most significant factors that determined customer satisfaction. From this equation, it can be concluded that cus-
Customer satisfaction is mainly dependent on the bank-related factors, as the ones quoted above and which include friendly and knowledgeable staff, easy accessibility to bank management and adequate bank networks. Accordingly, bank management needs to put more effort in addressing the bank-related factors since they play a crucial role in ensuring customer satisfaction.

8.10 Conclusion

This chapter contained the empirical results and discussions of the study findings presented as per the research objectives. Various statistical tests were performed and the results were presented. The chapter also contains the testing of the various hypothesis postulated in the study. The next chapter consists of a summary of the study findings, limitations and problems encountered in the study, conclusions made, managerial implications, recommendations as well as opportunities for further research.
CHAPTER NINE: SUMMARY, MANAGERIAL IMPLICATIONS, AND RECOMMENDATIONS

9.1 Introduction

This chapter presents a summary of the findings on customer satisfaction and retention and the implications of the findings for Kenyan banks. The chapter further provides conclusions based on the analysis presented in chapter eight. More so, the chapter carries the managerial implications, recommendations and opportunities for further research. Finally, challenges faced during the study are highlighted.

9.2 Summary of the Study Findings

The reliability of the measuring instrument was tested by means of the computer program SPSS version 16. The overall Cronbach Alpha reliability coefficient was identified. The measuring instrument was regarded as reliable since the Cronbach Alpha coefficient scores were above the satisfactory threshold of 0.6 as suggested by George and Mallery (2003).

The findings of the study will be discussed against the backdrop of the conceptual framework which was presented earlier in the study. The findings will establish whether the social-economic factors and the bank-related factors affect customer satisfaction.
Figure 9.1: The Conceptual Framework of the Study

Affects

Socio-economic Factors
- Age
- Occupation
- Education level
- Income

Customer/Proximate Factors
- Expectations
- Commitment
- Trustworthiness
- Valued customer experience

Bank-Related Factors
- Staff-customer relations
- Customer orientation of service employees
- Attractiveness of

Leads to

Customer Satisfaction
- Product quality
- Product packaging
- Price of product/services
- Complaints

{Dependent Variable}

Results To

Customer Retention and Loyalty

Outcome

{Independent Variables}

Source: Self constructed

9.2.1 Socio-economic Factors

Socio-economic factors formed part of the independent variables. The findings showed that the majority of the respondents had some formal education. This is an indication that even in terms of expectations, they were aware of what their banks should be offering. If the expectations they had for the banks were not met, they were likely to
switch to other banks in search of better services. These findings are consistent with the findings of Ranaweera and Prabhu (2003a) which demonstrated that an understanding of customer expectations is a prerequisite for delivery of superior service.

The majority of the banks’ customers are also in the younger and active age group of between 20 to 39 years. This age group consists of the young, vibrant, technology savvy customers. This implied that the banks had to tailor-make products attractive to this age group and keep reviewing them for relevance. Target marketing should be done where a customer’s needs are anticipated from the minute he/she joins the bank and relevant products offered along the way as their circumstances change to ensure their retention.

Married people were the leading respondents. Family packages should be worked out by banks so that such customers would find the bank a one stop shop for children’s accounts, investment or mortgage facilities. The demographic factors also show that the majority of the respondents are in the low income bracket. Banks should offer them affordable products like the ability to open accounts with minimal or no deposits, cheaper loan interest rates and flexible repayment terms.

The majority of the respondents have only one account. This to some extent denotes loyalty. Age appears not to be a factor when it comes to customer satisfaction. This means that banks have to satisfy all customers alike irrespective of age as their expectations are similar. Monthly income was a factor impacting on satisfaction. This would imply that the higher the income earned, the more the customer becomes demanding.

Most banks in Kenya already have products targeted at the high income earning customers such as prestige banking and excel banking. This is consistent with the findings of Strauss and Mang (2000) who argued that customers are willing to pay an increased premium for better service. This study showed that the level of education has an impact on satisfaction. It can be argued that as the customers becomes more knowledgeable, their expectations from the banks rise and are likely to switch if the-
se expectations are not met. They are also more aware of customer service standards that banks should be providing.

The study established the relationship between the various socio-economic factors and customer satisfaction. The Pearson Chi-square tests were performed on each of the socio-economic factors. The test was done at the 0.05 (5%) level of significance. The findings showed that age, monthly income and level of education were the only socio-economic factors that were significant at 5%.

This implied that there existed a significant relationship between age, monthly income, level of education and customer satisfaction. In addition, through the use of the Spearman Correlation Test, a negative correlation coefficient for age (-0.03) which was not significant (P>0.05) was established implying that the age of the customer was negatively correlated to satisfaction. In addition, the monthly income (0.144) and the level of education (0.012) had a positive correlation coefficient implying that the monthly income and the level of education had a positive correlation with customer satisfaction. In addition the significant p-value (P<0.05) of monthly income shows a linear relationship between monthly income and customer satisfaction.

In terms of socio-economic factors versus retention, the study showed that gender was not a significant factor. Both males and females will stick to a bank if they are treated well. Age was however a significant factor. It would appear that as customers’ age increase they would rather stay with the same bank to avoid inconveniences associated with moving to other banks and perhaps switching costs. Reasons for not wanting to switch banks are psychological reasons or the uncertainty that they will get better services. Monthly incomes and levels of education are significant factors too when it comes to retention. As earlier alluded to the higher the income and education levels, the more discerning is the customer and thus the higher the expectations which if not met will cause the customer to move to the competition in search of fulfilment.

9.2.2 Bank-related Factors
The bank related factors also formed part of the independent variables. The findings on the bank-related factors revealed that the number of accounts held by a customer is an indicator of whether the bank has been able to retain the customer or not. A satisfied customer is unlikely to switch banks while a dissatisfied customer will open several accounts in search of satisfaction. Banks should satisfy customers to minimise their chances of switching and the costs associated with the loss of accounts.

The Likert scale was used to assess the degree to which customers agreed to certain statements about bank-related aspects which could affect their overall levels of satisfaction with the bank offerings. The majority of the respondents were neutral about the bank products meeting their needs. This would imply that the bank products on offer are generic and the customer is not involved in their development, causing dissatisfaction. Many respondents were also not happy with the refreshments and entertainment offered by banks during their waiting time.

More than 50% of the respondents were of the opinion that their bank networks were not adequate and this was a cause of dissatisfaction.

Regarding the bank staff, the respondents were not happy about their attitude. Their lack of interpersonal skills and knowledge necessary to resolve their queries is a contributor to customer dissatisfaction. These findings are consistent with the study by Colgate and Lang (2001) as cited in the literature which showed that the relationship between the customer and the service provider is crucial in enhancing customer satisfaction.

Accessibility to senior bank management was also an issue causing dissatisfaction amongst the customers. Communication was also a factor that needed to be enhanced according to the respondents. The bank staff is the key contact between the bank and the customer; and the image they project or the way they handle the customer will determine whether the customer is happy or not. Respondents cited non-receipt of statements as a factor causing dissatisfaction.
9.2.3 Banks’ Strategies to Ensure Customer Satisfaction and Retention

The study aimed at identifying the various strategies known to customers and employed by Kenyan banks to ensure customer satisfaction and customer retention. The findings showed that most customers were aware that banks have worked to inspire their confidence and trust. However, they were not aware of any research undertaken by banks to obtain their feedback. This means banks carry out their research discreetly and the customer may not be aware thereof. The fact that customers are not involved in product development makes them feel alienated.

Of the methods used to evaluate customer satisfaction, the use of suggestion boxes was found to be most popular. Questionnaires are also commonly used in the banking halls and the customers are well aware of these two methods. Respondents also noted the use of telephonic contact to obtain feedback. Respondents were not aware of programs being run by banks to enhance their satisfaction. Though the customers may see the outdoor advertisements by banks, they may not relate this to their intended satisfaction. Respondents were unanimous that levels of customer service have improved over the years they have been banking and the fact that banks are getting closer to the people.

9.2.4 Customer Satisfaction and Retention

Customer satisfaction and by extension retention were the dependent variables in the conceptual framework. One of the main aims of the study was to analyse the relationship between customer satisfaction and customer retention in Kenyan banks. The findings showed over half the respondents had held bank for about 5 years indicative of loyalty. A small minority had banked for over ten years with the same bank.

The study showed that the more the customers get satisfied with the bank services, the higher the probability of being retained in the banks. These findings were consistent with those of Ranaweera and Prabhu (2003a) who demonstrated that the more satisfied the customers are, the greater is their retention. Reichheld and
Schefter (2000) showed that increased customer retention leads to additional sales, lower costs, price acceptance and no cost on word-of-mouth recommendations.

Most customers spend most of their time in the queues waiting to be served. Queues in the banking halls follow cyclical patterns where banking halls tend to be fuller during month end. According to customers, the waiting time in the bank is unacceptable though with proper refreshments and entertainment they would not notice the waiting time.

A small percentage (18%) of respondents had never switched from their initial banks. Reasons given for staying with their original banks stem from the psychological reasons associated with switching banks and the uncertainty that the new bank will cause more satisfaction. Reasons cited for switching to other banks were that the banks were inefficient in their operations. Infrastructural changes such as increasing branch networks, ATM services while adopting technologically driven banking services such as mobile phone banking and internet banking amongst others may enhance efficiency in accessing banking services. Some customers cited hidden charges in bank facilities, poor service and long queues as reasons for switching to other banks. Respondents also felt that banks had not done enough to retain them.

Many respondents were of the view that resolved queries will be a consideration in their staying with the same bank. This is consistent with literature reviewed (Dixon et al., 2010). Customers were not sure about how long their relationships with their current banks would last. Most respondents cited phone calls as the preferred means of communication. The advantage is that about 16 million Kenyans out of a total population of forty million have mobile phones. The mobile phone ensures that the recipients get the message and it is also relatively cheap. The SMS came second as the second most preferred means of communication. This may be explained by the fact that not all Kenyans are literate to read SMS’s. Other factors that may cause customers to switch banks were frequent ATM breakdowns.

9.3 Recommendations and Managerial Implications
In chapter one of this thesis the researcher hypothesised the existence of interdependencies between the various constructs which were successfully tested. Based on the findings of this study, it can be concluded that there is a fairly weak positive relationship between socio-economic factors and customer satisfaction. Key socio-economic factors that are significant to this relationship include age, monthly income, level of education and number of bank accounts held. These factors determine the customer’s levels of satisfaction with the bank’s products and services.

9.3.1 Socio-economic Factors

Banks in Kenya today have paid attention to segmentation of products by age to some extent. There are children’s accounts in most banks with parents remaining the signatories and the children cannot operate the accounts until they attain the majority age of eighteen years. Some banks have got accounts specifically for teenagers and students as well as the normal accounts for adults (over 18 years).

From the findings in this study, it is recommended that the management of banks leverage on age as a segmentation strategy and use technology to make the bank products attractive especially to teenagers and students. This group is technologically savvy and would benefit a lot from mobile phone banking in areas such as payment of school fees, balance confirmation, money transfer and savings. The banks could also advertise new products and educate the younger customers through their mobile handsets in social sites such as Twitter and Facebook.

Most respondents were married customers. The implication for the bank management is that it must invest in good CRM systems that will able to analyse the customer portfolios enabling the banks to anticipate the special needs of married peoples and come up with all-inclusive products to cater for their changing needs in the family life cycle. Different aspects should be addressed at different stages of a customer’s developmental life cycle. An example is children’s accounts, mortgage products, easy repayment terms of loans, car loans, school fees accounts and insurance for the whole family. Customers should find ‘a one stop shop’ in their banks so that
all their needs are met under one roof. This will help build their stickiness and hence retention.

Currently, banks do not pay much attention to the level of education which this study has found to have a co-relation to customer satisfaction. Banks have tended to have generic products across the board. The findings in this study have confirmed that majority of the bank customers are educated with at least a 'form four' level of education. The management of banks should leverage on this and develop technologically driven products since most of their customers are literate. Such products like the internet banking which has mostly been marketed to Kenyans in the diaspora. This study has confirmed that the Kenyan market is ripe for such products as the literacy levels are high. Introduction of such products will enable customers to access banking services from the comfort of their offices saving on time, as customers can carry out all banking instructions from their homes, offices or from their mobile handsets.

The bank management must also cater for the needs of the illiterate customer. Communication to such customers can be done through radio stations that broadcast in local dialects. When the customers approach the banks for banking services, the banks could endeavour to have staff speaking the customer's native language attend to them to ensure that their needs are well articulated. The recommendation here is that the customer service staff should be trained to attend to the needs of such customers.

This study also found that income has a co-relation with satisfaction. Currently, the bank products have remained fairly homogenous for all customers. The current practice is that customers who are classified as 'high end' pay a premium to be attended in a secluded area to avoid the long queues in the banking halls. This study should influence the management to come up with specific products for the high end market as well as the low end market. From the literature reviewed, customers are willing to pay a premium for superior products that could incorporate internet banking.
The majority of the customers fall in the low end market and as a result, the management of banks must consider the following factors when coming up with products for this niche.

1. Lower pricing for their bank accounts;
2. Lower interest rates for the loan products;
3. Low or no amounts required to open accounts;
4. Consider those that do not have collaterals by using other vetting criteria to check character;
5. Training and support for the small scale business owners; and
6. Encourage a culture of saving to build up collateral over time.

If the banks implement the above changes, the immediate impact on profitability will be negative but in the long run, it will reap the benefits of retaining its market share. This segment may not be highly profitable but will enable the bank to retain low segment niche and enhance financial inclusion for the unbanked Kenyan customer. From this study it is recommended that the banks use the three variables of age, income and education to their advantage and to segment their customers. The fairly weak positive relationship implies that the three socio economic variables cannot be ignored and must be paid attention to by the bank management although they may not form the key focus when banks are formulating strategies to satisfy and retain customers.
9.3.2 Bank-related Factors

From this study, it has emerged that there is a positive relationship between bank-related factors and customer satisfaction in Kenyan banks. The correlation is linearly with a high probability or likelihood of occurrence. This means that any proportionate positive changes or improvement in bank-related factors may lead to proportionate increases in customer satisfaction in the Kenyan banking industry, and vice versa. In addition, it can also be concluded that there is a fairly strong relationship between bank-related factors and customer retention in Kenyan banks with a high probability or likelihood of occurrence. This implies that a proportionate positive change or improvement in bank-related factors may lead to increased customer retention in the Kenyan banking industry and vice versa.

The bigger implication for the bank management is that all variables under bank-related factors must be addressed in order to raise the levels of customer satisfaction and retention in the Kenyan banks.

The study findings are significant as respondents cited the banks lack of presence in some areas as one of the causes for switching. Currently most banks are concentrated in the major urban centres with very few scattered in the rural areas. This has denied them potential customers in those places. When customers are transferred from one station to another and they find their bank of choice is not there, they switch to the bank that is available. The bank management must urgently set aside budgets for expanding their networks in order to improve their geographical spread. This in the short term will affect their profits but the long term gains include more satisfied customers and higher customer retention rates. These study findings have significantly pointed out geographical representation as one of the contributors to customer satisfaction and more importantly, retention.
This study identified geographical presence as a gap which if not attended to will cause the affected banks to lose their customers to the competition who have better geographical coverage. Geographical representation in the remote parts of the country will also lead to economic growth for the area as the banks begin to issue loans that will help in development. This will in turn improve on banks’ profitability from the interest earned on loans. Opening of more branches and installing more ATMS requires good planning as the costs involved are enormous and are likely to affect profitability in the short term. Banks have to open more branches, extend their ATM networks or use third party agents where it is not feasible to attend to the former two recommendations.

Banks will have to invest in infrastructure and modern technologically mediated systems to boost their efficiencies. Good technology will ensure efficiencies such as customer statements are not only sent out on time but that they are accurate. This will avoid queries related to the accuracy of statements and the dissatisfaction that follows if the queries are not solved. Customer satisfaction should be kept in mind as banks upgrade existing systems or while buying new systems altogether to avoid down times. As evidenced in literature, service failure can be a major cause for customer dissatisfaction, customer defections and negative word-of-mouth. Banks should make deliberate efforts to learn from unhappy customers for continuous improvement of bank services. The bank should present opportunities to customers to complain easily.

Kenyan banks should invest in technology that will track how fast customers’ queries are resolved to avoid repeat calls and visits to the banks. The ‘first call resolution’ principle should be adopted in all the banks. A good query response system should ensure that lead times in resolution of customer queries are kept at a minimum. The study has clearly shown that the customers that tend to switch to the competition are those whose queries are not solved within a reasonable time. Post call surveys should be done to ensure that the customers are happy with the way their queries were handled. Other methods that banks could embrace to communicate to custom-
ers are SMS’s and emails which can help disseminate information to the customers much faster.

Further, banks should re-engineer and modify their systems in order to enhance their efficiency in service sophisticated software that has analytical tools to help integrate customer information and build stronger capabilities in service delivery. Such systems can deliver CRM capabilities. These models though developed in other countries outside of Africa and in South Africa have not been used in Kenya to enhance the bond between the customer and the bank through targeted marketing. Only by use of the CRM models will banks be in a position to segment their markets and offer targeted products that are also relevant.

The Customer Relationship effort must address each customer or customer differently in order to handle the special needs inherent in various groups. Using CRM technology the banks should continuously look at the customer portfolios and segment them to determine their needs. Secondly, measures should then be put in place to meet those needs. The segments will present different priorities for improvement due to their distinct characteristics.

The use of Customer Relationship Management for segmentation and enhanced profitability has been supported by empirical studies reviewed in the literature. Measuring instruments should be used to continually monitor if the products or services are meeting that particular customer segment needs and reviews should be regular as the need dictates.

The bank service infrastructure must also be upgraded at a cost. This will go a long way in ensuring that system uptimes are maintained and downtimes minimised. Modern systems will also ensure that customers get their statements on time and also facilitate for internet and mobile banking. These modern trends will greatly attract the younger customers as well as contribute greatly in customer retention.
The findings from the study on the number of accounts a customer holds is significant. It points to a deficiency in the banks’ array of products where customers have to look elsewhere for the suitable banking product. The implication for the management here is that banks must engage in meaningful research which will lead to development of a good variety of relevant products from which a customer can choose. This will ensure that the customer is retained within the bank as they will have no need to look elsewhere. Secondly, it is recommended that Kenyan banks harness their efforts at every functional level such as front office operations, customer service, marketing or human resources in order to come up with products that meet customer needs and thereafter, offer quality service in order to retain the customers.

The current practice where the banks offer generic products will have to change. Banks must formulate deliberate policies that incorporate the value of research in their product development cycle stating that any new product must be preceded by a research. This will enhance the ownership of the product by the customer. The research must be well funded from the bank profits so that it is carried out periodically.

It is also imperative that the customers must find the bank a ‘one stop shop’. The banks must strengthen their brand image in order that the customers will feel proud to be associated with them. Popular strategies that banks could employ include bonus programs and premium-based pricing to reward their customers such as lowering interest rates on subsequent loans, increasing credit card limits to reward patronage. These methods have the potential to enhance customer retention in the banks.

The main methods known to customers and used by banks to evaluate customer satisfaction were mainly suggestion boxes, questionnaires in the banking halls and follow-up telephone calls with suggestion boxes being widely used by most banks. These methods have been overtaken by time. Most of the customers were unaware of programs run by the banks to ensure their satisfaction. The management of banks must use modern methods of advertising that include sms, ATM’s and bank statements to communicate the value addition of their products and services. As men-
tioned earlier, they must also endeavour to offer an all inclusive basket for the customers to choose from.

Based on the analysis of the relationship between customer satisfaction and customer retention in Kenyan banks, it can be concluded that there is a strong linear relationship between customer satisfaction and customer retention in Kenyan banks. It is evident from the study that the more customers are satisfied, the more they are likely to be retained by the bank, and vice versa. Additionally, there is a strong positive correlation between customer satisfaction and customer retention in Kenyan banks.

This finding is significant as it supports existing literature and satisfies one of the secondary objectives which was to determine the relationship between customer satisfaction and customer retention in Kenyan banks. The finding however differs from that of Smith and Higgins (2000) as cited in the literature review that found a weak linkage between satisfaction and retention and concluded that it is only in some cases that customer retention appears to be a worthwhile strategy.

Through the statistical testing of the multiple linear regression model adopted in the study, it can be concluded that the bank-related factors were the most important factors that influenced customer satisfaction. This means that an improvement of bank-related factors contributes significantly to customer satisfaction. The managerial implication of this is that the bank management needs to train staff that plays a pivotal role in linking the customer to the bank. Training should be made mandatory for all bank staff especially those in the front line. The staff should be thoroughly trained in customer service skills and should also be very knowledgeable about the banking products to avoid customers being transferred from one bank employee to another.

The bank staff must also be trained on the banks’ complex and ever changing business environment, bank policies and procedures. Customer queries should be resolved at the first instance to avoid customers calling again. It is clear from the study that training of staff in their customer handling skills as well as making them more
receptive to customer needs will greatly improve customer satisfaction and retention. Staff that interact with customers are a crucial contact between the bank and the customer and their orientation towards the customer plays a big role in determining whether they will stay with the bank or not. It is thus imperative that banks also adopt a good after sales support for their customers by training their staff on the need to have a lasting relationship with the bank customers. The bank staff and management should at all times harness their energies towards meeting the needs of customers since once dissatisfied, they have an option of switching to the competitors.

Customer satisfaction should be the focus of every strategy the banks develop to ensure customer retention. Improving bank customer satisfaction and loyalty are frequently linked to positive outcomes for an organisation. Further; bank staff should display positive attitudes towards customers at all times. The bank management must have a manual that states the importance of the customer to the organisation and also clearly spell out the customer service standards that are applicable to the organisation. This document should be part of the strategy document which outlines its mission and vision.

Further, only qualified staff should be placed in customer service departments to ensure that customer issues are dealt with professionally. Timeliness in resolving customer issues is also a key contributing factor to improving retention. The bank’s image to the customer is mainly determined by the way the staff handles the customer which in turn will determine whether the customer is retained or leaves the bank. The banks need to employ adequate customer contact staff during peak periods to avoid long queues in the banking halls. This will ensure the customers receive better services and are served in the shortest time possible. In relation to this banks should also evaluate their staff on the basis of how well they handle the customers’ complaints. Outstanding staff in customer service must be rewarded publicly in order that all bank staff aspires to get the reward thus raising the customer service levels. Customers should be interviewed and allowed to comment on levels of service offered by different staff.

From the study, banks in Kenya experience long queues in their banking halls. The waiting time in the banking halls was found to be unacceptable. Banks should consider installing TVs and soft music in banking halls are some of the ways the busy
branches could facilitate the waiting period. Banks might also consider giving the customers short questionnaires while standing in the queue to facilitate quick feedback about banking services. Employees should always be made aware of the survey results so that they can focus on the areas that require improvement. Banks should be ready to make this investment if customer satisfaction is to be achieved.

**9.3.3 Product Development**

Involvement of customers in the market-based research, provision of mechanisms for feedback, involvement in product development is essential to ensure the customers get what they specifically need. Banks should deliberately seek the customers’ input before and during the development of new products. The customers proposed methods for obtaining the feedback includes use of questionnaires, focus groups, phone calls and emails. Banks should desist from copying products from the competition and imposing them on their customers. Banks will need to go out of their way to deliberately listen to the needs of customers.

When it comes to service delivery, banks must ensure equitable treatment of all the bank customers to avoid a feeling of discrimination by some customers. A voice-of-the-customer model should be incorporated in order to get the customers’ input especially during new product development. Products developed using the customer mediated approach should be adopted and their perceived value and benefits clearly communicated to the product development department in the banks. Banks in Kenya should have orchestrated awareness creation campaigns aimed at improving the customers’ perceptions of the value provided by banking services so that price does not remain the key determinant when it comes to choosing banking service.
9.3.4 Communication

Out of a population of 40 million, 16 million Kenyans own mobile phones. The mobile phone can be a very effective tool for banks to communicate with their customers. Some banks have already embraced this where SMS are used to advise the customers to pick up their cards and have enabled limited banking enquiries. Using technology, the bank management should widen the scope of what customers can do with their phones and through the internet. Banks must also use emails to communicate as well as other social networks like face book and twitter which the younger generations can identify with.

Advertisements to promote the bank product offerings must be carried out. The brand of the bank must also be promoted so that customers can identify with it.

9.3.5 Quality Service

Quality service for the Kenyan banks must be enhanced. Market theorists have been able to link customer satisfaction to timeliness in resolving customer problems. Quality service and the costs of maintaining it like trained staff and efficient systems is a price banks must be prepared to pay. It is imperative that managers have a clear understanding of the role of the perceived service quality and how it affects satisfaction. Studies and reviewed literature have linked customer satisfaction in retail banking industry to higher levels of perceived service quality leading to higher satisfaction and retention levels. Actions towards customer satisfaction should be holistic and systematic. Banks should exploit the fact that a number of their customers have only got one account. They stand a chance to retain these customers if they offer quality service to them.

Bank strategies of the Kenyan banks should be customer focused. It is only when the banks know what the customer wants that it can be able to meet their needs. Training of staff should greatly improve their customer handling skills as well as make them more receptive to customer needs. It is recommended from this study
that retention programs by banks should be deliberate and the customers should be made aware of them. Kenyan banks must exercise self evaluation through engaging in customer satisfaction surveys. These should be developed and organised in such a way that a customer satisfaction index can be computed either quarterly or semi-annually. This continuous feedback will help the banks to monitor and ultimately improve the customer satisfiers throughout the year. A customer satisfaction index may also be a test of how successful the CRM programs have been. The measurement of customer satisfaction and retention will enable for banks to improve their capability to offer quality and relevant services.

9.3.6 Proposed Customer Management Model

The researcher proposes that all bank strategies should start with the customer as the key focus. Mining of data should be undertaken using tools such as CRM to segment customers and identify their specific needs. Banks should then develop specific products to meet these needs. Afterwards, the banks should continuously carry out research to assess if the products are still relevant to their customers whose needs keep changing in order for them to refine the products or develop new products altogether. The new or refined products should be launched and the cycle starts again. This cycle will benefit the banks in two ways. Firstly, it will enable them to come up with products that meet customer’s needs through the use of technological tools like the CRM and secondly, the customers will feel valued when their input is sought through research.
The recommendations from this study as highlighted above require that banks initiate drastic changes to the way they do business. The above changes rely mostly on technology which the banks must consciously invest in. Bank systems are not cheap and the implication for the management is that budgetary allocations must be made to cater for this. Technology is the future of banking. It has overtaken the traditional ways of doing business and it is imperative that banks invest in good systems and train staff on how to get the maximum benefits from them in order to satisfy and retain their customers.

**9.4 Recommendations for Further Research**

The population of banked Kenyans is about ten percent of the total population of about forty million customers. A study should be carried amongst the un-banked
population to establish why there are such low levels of financial inclusion and apathy towards banking services in the country.

In view of the reforms initiated by the Central Bank of Kenya, where third parties like supermarkets and other retail or business outlets can be contracted by banks to carry out limited banking services, a study should be carried out in the future to establish how agency banking will affect the levels of customer satisfaction in the banking industry given that the main responsibility of ensuring satisfaction will now shift to third parties. The banks cannot exonerate themselves from the responsibility of customer satisfaction and retention of their customers as the third party agents will be their agents.

Since transferability of findings into other African countries may not be specifically accurate, it is recommended that similar studies be carried out in other African countries of which the findings can then be compared with this research to ascertain the determinants of customers’ satisfaction in these countries with a view to finding the similarities or divergence with the Kenyan study.

There are many facets of service quality such as bank staff orientation towards the customer, bank ambience, resolution of queries, courteous staff and sending timely statements and each one of them can be researched on its own.

9.5 Limitations of the Study

Despite the fact that the researcher secured permission from the relevant authorities as well as an introductory letter explaining the purpose of the study, concealment of information from the respondents was evident. Some respondents regarded the information sought as strictly confidential since it related to their respective banks. This had an impact on the speed of data collection since respondents’ participation in the study was purely voluntary.
The researcher had to seek assistance in translating the questionnaire to the local languages where respondents were illiterate. The researcher’s influence on some of the responses cannot thus be ruled out completely.

The study is not longitudinal. A repeat of the same after a while will be able to show whether certain variables will still hold true.

The study was conducted during a very difficult economic period against the background of the aftermath of the global economic recession (2009/2010). It is possible that some responses could have been influenced by these prevailing economic conditions.

A further limitation was that though some findings like the antecedents of customer satisfaction can be used in a limited or modified way in other banking industries in the African continent, statistically the findings cannot be generalised beyond the banking industry in Kenya. In addition, a transfer of entire findings to other service industries would be highly speculative since various industries have different key characteristics that determine the level of customer satisfaction.

9.6 Determinants of Customer Satisfaction and Retention in the Kenyan Banking Industry

The study has identified the following as the determinants of customer satisfaction and retention in the Kenyan banking industry:

- Good service infrastructure to will offer efficient and more reliable services;
- Wide geographical coverage for the banks to facilitate easy access;
- Good system uptimes (ATM’s)
- Quality service by bank staff;
- Knowledgeable and efficient bank staff;
- Customers’ involvement in product development in order to come up with relevant products; and
• Good communication from the banks using modern means such as emails, and sms.

These findings are mostly in line with the literature reviewed as highlighted earlier. Banks need to take all the above listed factors into consideration while devising their strategies in order to satisfy and retain their customers.

Although other research has dealt with the issue of customer service in other industries, the findings from the Kenyan banking industry are new and this is the study’s unique contribution. This study:

• Can assist banks to become more effective and productive;
• Can help the banks focus more on the needs of the customer by engaging in continuous research which will help them develop relevant products;
• Can help banks equip their staff with the necessary customer service skills so that they can project the right attitudes towards the customers and be in a position to resolve customer issues to conclusion;
• Has highlighted the need for banks to acquire proper technology to boost efficiencies, their geographical presence and in order to maintain high up-times especially for the ATMs; and
• Will assist the banks to come up with deliberate strategies aimed at customer retention.

9.7 Conclusion

This study has been able to identify several gaps in the current banking practises in Kenya, policy and management which need to change in order that the customer satisfaction objective, which is a key business strategy for every service industry is achieved. The most important gaps include:

• Bank strategies do not include satisfaction of customers. They have a seller’s mentality where banks only talk of profits;
• The banks’ organisational structures are not oriented towards looking at business with the customer in mind or from the customer’s perspective;
- Banks’ customer service departments and staff do not offer individualised customer service; and
- Bank products are generic and do not satisfy customers’ specific needs.

The implications of the findings are significant for marketing theory and practice. The study has been able to identify technology as a crucial delivery tool for the customer’s satisfaction in the twenty first century. It will enable smoother communication, use of CRM tools and flexibility in banking which are likely to enhance satisfaction and retention levels of bank customers. Staff, who are pivotal as the link between the bank and the customer have to be skilled to handle customers and resolve their queries in the first instance. Specific bank-related factors as indicated in the study will have to be addressed in order for banks to satisfy and retain their customers.

The study findings have validated literature by highlighting the bank-related factors as key antecedents to customer satisfaction. It is also evident from the study that customers who are not satisfied will move to the competition. This is also consistent with the Literature reviewed. Banks must remember that it is more expensive to recruit a new customer than to retain one. The increased competition in the banking industry in Kenya has forced the banks to expand their businesses, their branches, their staff but the customers have been neglected with no significant effort by the banks to research into what products the customer actually needs.

The banks have been more concerned with increasing their market shares, sales volumes and making huge profits without paying attention to the satisfaction of their customers who actually drive these profits. Studies elsewhere have shown that if the customer ceases to be the focus of the business, it will not survive. Banks need to go back to basics and ask the customer what they want. In this way they will develop products that are specific to the customer’s needs thereby satisfying and retaining them.
Consistent with the literature reviewed, this study empirically validated the direct link between customer satisfaction and retention. The study has also made a contribution to literature by highlighting the key antecedent that causes customer satisfaction for the Kenyan bank customer, namely bank-related factors. If banks worked to improve these factors proportionately, they would be able to enhance the levels of satisfaction of their customers. Literature has identified the importance of quality service, staff handling of customers, and reasonable pricing as some of the contributors to customer satisfaction which were also demonstrated in this study.

Lastly, the study provides important recommendations to bank managers on what to focus on in order to enhance levels of customer satisfaction and retention in their banks to improve long-term profitability. As a starting point, the banks' organisational cultures must change to start looking at things from a customer's perspective.

Banks must also re-engineer themselves in policy and practice to deliver excellent individualised service quality. Kenyan banks must be willing to change and adopt modern technology which will propel them to the next level. At a minimum, the study offers the banks a point of reference when it comes to dealing with customers. The central bank could use the report to advise the banks on ways of satisfying and retaining customers thus remaining profitable.
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Freemantle, D. 2004. The buzz 50 little things that make a big difference to world class customer service. Siegel: Nicholas Breasley.


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APPENDICES

APPENDIX 1: QUESTIONNAIRE COVER LETTER

Dear Respondent,

This questionnaire is designed to gather information on the determinants of customer satisfaction and retention: A survey of the banking industry in Kenya. The study is being carried out in partial fulfilment of the requirements for the degree of Doctor of Business Administration in the Department of Business Management, Faculty of Business and Economic Sciences at the Nelson Mandela Metropolitan University, South Africa.

The information in this questionnaire will be treated with confidentiality and in no instance will the name of the respondent be mentioned in this research. Also, the information will not be used for any other purpose other than for this research.

Your assistance in facilitating the research will be highly appreciated. A copy of this research paper will be available to you upon request.

Thank you very much.
Kind regards

Peris Mburu
APPENDIX 2: QUESTIONNAIRE FOR BANK CUSTOMERS

This questionnaire is meant to gather information on the determinants of customer satisfaction and retention: A survey of the banking industry in Kenya. The information provided by you will be treated as strictly confidential and will be only used for research purpose. (Kindly fill in the blank space or tick appropriately in the space provided).

SECTION ONE: DETERMINANTS OF CUSTOMER SATISFACTION

A. SOCIO-ECONOMIC FACTORS

1. Indicate your gender.
   1) Male
   2) Female

2. Indicate your age category.
   1) Below 20 years
   2) 20-29 years
   3) 30-39 years
   4) 40-49 years
   5) Above 50 years

3. What is your estimated monthly income category (in Ksh)?
   1) Less than 10,000
   2) Between 10,001-20,000
   3) Between 20,001-30,000
   4) Above 30,001-40,000
   5) Above 40,000

4. What is your highest level of education?
   1) Primary and below
   2) Secondary
3) Tertiary College
4) Undergraduate
5) Postgraduate
6) Other (specify) .........................................................

5. Where do you work/your occupation?
   1) Civil servants
   2) Employed in private sector
   3) Business person
   4) Non-employed
   5) Others (specify) ....................................................

6. What is your marital status?
   1) Single
   2) Married
   3) Divorced
   4) Separated
   5) Widowed
   6) Others (please specify) ............................................

7. How many bank accounts do you have?
   1) Only one
   2) Two
   3) Three
   4) Four
   5) Five
   6) Above five ...........................................................

B. BANK-RELATED FACTORS

8. Please indicate the extent to which you agree or disagree with the following statements affecting your overall level of satisfaction with your bank’s products/services.
   1=strongly agree, 2=Agree, 3=Neutral, 4= Disagree, 5=Strongly disagree
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<tr>
<th>Statements</th>
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</thead>
<tbody>
<tr>
<td>a) My bank’s products are suited to my needs</td>
<td></td>
<td></td>
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<tr>
<td>b) The bank offers entertainment and refreshments while I wait</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>c) The bank network is adequate and ensures accessibility in all regions</td>
<td></td>
<td></td>
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<tr>
<td>d) The waiting period is minimal, hardly noticeable</td>
<td></td>
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<tr>
<td>e) The bank’s staff meet me with a smile and call me by my name when I arrive in the banking hall</td>
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<tr>
<td>f) I can always access the bank management anytime I need anything to be sorted out</td>
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<td></td>
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<tr>
<td>g) Statements are sent to me on time and are accurate</td>
<td></td>
<td></td>
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<tr>
<td>h) I am usually contented with the services I get from the bank</td>
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<td></td>
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<tr>
<td>i) The bank usually communicates to me proactively if there is something I need to know</td>
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<td></td>
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<tr>
<td>j) The bank’s staff is never too busy to respond to my requests</td>
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<td></td>
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<tr>
<td>k) The bank’s staff follow through on their promises</td>
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<tr>
<td>l) The bank’s staff are able to handle all my questions satisfactorily</td>
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<tr>
<td>m) The bank’s staff understand my specific needs for financial services proactively managing them</td>
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<tr>
<td>n) My bank has never asked me what I need /not involved in market re-</td>
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</tbody>
</table>
9. Does your visit to the bank always entail seeing a bank official?
   1) Yes  
   2) No

10. If you answered yes to question 9 above, what is usually the main reason for seeing the bank staff? (Tick one answer)
   1) Complaint
   2) Courtesy call
   3) Normal call
   4) Unresolved query
   5) Others (specify) .................................................................

C. STRATEGIES FOR CUSTOMER SATISFACTION

11. Does your main bank carry out regular market research?
   1) Yes  
   2) No

12. If yes above, have you participated in any? Explain.

__________________________________________________________________
__________________________________________________________________

13. Does your bank involve you during product development?
   1) Yes  
   2) No

14. If yes above, how would you rate your level of involvement in the bank’s product development?
   1) Greatly involved  
   2) Fairly involved
3) Not involved at all

15. In your view, which of the following methods does your bank use to evaluate your satisfaction as their customer? (You may pick more than one answer).
   a) Question in the banking hall
   b) Follow up telephone calls
   c) Outsourced firm
   d) Suggestion boxes
   e) Other (specify) ……………………………………….

16. How would you rate your overall level of satisfaction with your main bank in the following aspects? (Tick as follows) 1 = Very Satisfied, 2 = Satisfied, 3 = Neutral, 4 = Dissatisfied, 5 = Very dissatisfied.

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<tr>
<td>a) Overall customer service</td>
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<td>c) Relationship closeness</td>
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<td>d) Competitive fees and charges</td>
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<td>e) Listening to the needs of the customer</td>
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<td>f) Friendliness of staff</td>
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</table>

17. Does the bank provide enough entertainment to make you comfortable while you wait to receive banking services?
   1) Yes
   2) No

18. Does the bank provide a mechanism for feedback?
19. Does the bank inspire confidence and trust when dealing with you?
   1) Yes
   2) No

20. Are you aware of any programs run by the bank to promote customer satisfaction?
   3) Yes
   4) No

21. Comment on your answer in question 19 above.

___________________________________________________________________
___________________________________________________________________

SECTION TWO: CUSTOMER SATISFACTION

22. How long have you been a customer of this bank?
   1) Less than a year
   2) 1-5 years
   3) 6-10 years
   4) 10-15 years
   5) Above 15 years

23. Please indicate the extent to which you agree or disagree with the following statements affecting your satisfaction with your bank’s products. 1=Strongly agree, 2=Agree, 3=Neutral, 4=Disagree, 5=Strongly disagree

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<tbody>
<tr>
<td>a) I am satisfied with the way my complaints usually are handled by my bank</td>
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<tr>
<td>b) Bank staff are friendly and approachable</td>
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</table>
c) I usually walk out of the bank with a feeling of happiness having achieved my goal

d) My bank usually meet all my expectations

e) Bank services are efficient services at all times

f) The bank charges competitive interest rates on loans

g) The bank cares for me and seeks my opinion through questionnaires

h) My bank proactively markets to me new banking products

i) The cost of banking is prohibitive to me

24. Do you feel alienated by your bank?
   1) Yes
   2) No

25. How do you generally describe your waiting period at the bank? (Tick one)
   1) Traumatising and stressing
   2) Acceptable
   3) Not acceptable
   4) Hardly noticeable
   5) Enjoyable

26. During your last visit to the bank, did you spend most time waiting?
   1) Yes
   2) No

27. If yes above, what was the main cause for waiting?

___________________________________________________________________
___________________________________________________________________
___________________________________________________________________

28. What in your opinion would you recommend to make the waiting shorter?
SECTION THREE: CUSTOMER RETENTION AND LOYALTY

29. Have you ever switched from your main bank?
   1) Yes
   2) No

30. If yes, indicate why. If no, proceed with the next question.

31. Please indicate the extent to which you agree or disagree with the following statements affecting you as a bank’s customer. 1=Strongly agree, 2=Agree, 3=Neutral, 4=Disagree, 5=Strongly disagree

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<tbody>
<tr>
<td>a) I have changed my main bank in the last 12 months</td>
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<tr>
<td>b) I have closed my account in my main bank in the last 12 months</td>
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<tr>
<td>c) I usually look out for better banking products and services in the market</td>
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<td>d) I usually enjoy going to my bank now and then</td>
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<tr>
<td>e) I would consider recommending someone else to my bank</td>
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<tr>
<td>f) My bank is my first choice when it comes to banking services</td>
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<tr>
<td>g) Switching costs prevent me from moving to</td>
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</table>
26. Do you think your bank has done enough to retain you as a customer?
   1) Yes
   2) No

33. If answer to question no 34 above was yes, please explain how?

_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________

34. Which among the following is your preferred means of receiving communication from your bank? (More than one answer is allowed)
   a) Phone
   b) Email
   c) Letter
   d) Sms
   e) Newspaper
   f) Electronic media like TV

35. How long do you see yourself staying with your main bank?
   1) Forever
   2) Less than a year
   3) 1 to 5 years
   4) Over 5 years
   5) Not sure

36. Apart from the factors discussed above, what other factors affect your level of satisfaction?
37. What recommendation would you make to enhance customer satisfaction with

______________________________________________________________

______________________________________________________________

______________________________________________________________

38. The banking products and services offered by the Kenyan banking industry?

______________________________________________________________

______________________________________________________________

THANK YOU FOR YOUR RESPONSES
APPENDIX 3: BARUA YA WATEJA WA BENKI KWA KISWAHLI

Kwa mhojaji,
Ahsante sana.

Kwa moyo mkunjufu

Peris Mburu
APPENDIX 4: HOJAJI YA WATEJA KWA KISWAHILI

Hojali hili linakusudiwa kukusanya habari juu ya kuridhisha mteja na kumhifadhi kwenye utafiti wa masoko ya benki nchini Kenya. Habari utakazotupatia itachukuliwa ya kibinafsi na kutumika tu kwa lengo la utafiti. (Kwa hisani jaza mapengo yaachwa wazi au weka alama mwafaka kwenya mraba uliopewa)

SEHEMU YA KWANZA: NYENZO ZINAZOTUMIWA NA MABENKI KURIDHISHA MTEJA

A. NYENZOZA UCHUMI NA JAMII

1. Onyesha jinsia yako.
   1. Kiume
   2. Kike

2. Onyesha kiwango cha umri wako.
   1. Chini ya miaka 20
   2. Miaka 20-29
   3. Miaka 30-39
   4. Miaka 40-49
   5. Zaidi ya miaka 50

3. Ni kipi kiwango cha makadirio ya mapato yako ya mwezi?
   1. Chini ya 10,000
   2. Kati ya 10,001-20,000
   3. Kati 20,001-30,000
   4. Kati ya 30,001-40,000
   5. Zaidi ya 40,000

4. Ni kipi kiwango chako cha elimu?
1. Chini ya shule ya msingi
2. Shule ya upili
3. Taasisi ya kitaaluma
4. Shahada ya chuo kikuu
5. Mzamili
6. Mengine(bainisha) ..............................................................

5. Unafanya kazi wapi?
   1. Serikalini
   2. Sekta ya kibinafsi
   3. Mfanyi biashara
   4. Sina kazi
   5. Nyinginezo.................................................................

6. Ni kipi kiwango chako cha utu uzima?
   1. Kapera
   2. Umeolewa
   3. Umetalikiwa
   4. Mmeachana tu?
   5. Umefiliwa
   6. Mengine(tafadhali fafanua)..........................................

7. Una akaunti ngapi?.........................................................
   a. Moja tu
   b. Mbili
   c. Tatu
   d. Nne
   e. Tano
   f. Zaidi ya tano

B. MASWALA YANAYOHUSIANA NA BENKI
8. Tafadhali onyesha kwango cha kubaliana au kutokeleza kwako na maelezo yanayo husu kuridhishwa kwako na huduma za benki yako 1=Nafiakiana zaidi, 2=Nakubaliana, 3=wastani katikati 4=sikubaliani 5=sifikiana nayo kabisa

<table>
<thead>
<tr>
<th>Maelezo</th>
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<tbody>
<tr>
<td>a Huduma za benki yangu zinahusiana na mahitaji yangu</td>
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<tr>
<td>b Benki hunipa starehe na kuniburudisha ninapongoja</td>
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<tr>
<td>c Benki limesambaza mizizi kuhakikisha huduma hupatikana kila pembe</td>
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<tr>
<td>d Muda wa kungojea ni mdogo sana kiasi cha kutogundulika</td>
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<tr>
<td>e Wahudumu hunikaribisha kwa tabasamu na kuniita kwa jina langu pindi nifikapo ukumbi wa benki</td>
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<tr>
<td>f Ni rahisi sana mimi kukutana na wasimamizi wa benki wakati wowote kunitatulia matatizo yangu</td>
<td></td>
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</tr>
<tr>
<td>g Maelezo hutumwa kwangu kwa wakati na huwa sahihi</td>
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</tr>
<tr>
<td>h Mimi huridhishwa na yale ninafanywa na benki</td>
<td></td>
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</tr>
<tr>
<td>i) Benki huwasiliwa na mimi mapema iwapo kuna jambo ninahitajika kujua</td>
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<tr>
<td>j Wahudumu wa benki hawakosi muda wa kujibu maswali yangu</td>
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<td>k Wahudumu wa benki hutekeleza ahadi zao</td>
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<tr>
<td>l Wahudumu wa benki wana uwezo wa kushugulikia maswali yangu na kuniridhisha</td>
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<td></td>
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<tr>
<td>m Wahudumu wanaelewa mahitaji</td>
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</tr>
</tbody>
</table>
9. Je Kutembelea kwako benki kila wakati ni kwa ajili ya kumwona msimamizi wa wahuduma wa benki? 
1. Ndivyo  
2. Hapana

10. Iwapo jawabu lako ni ndivyo kwa swali la awali, je ni nini chanzo chako cha kuwaona wahudumu wa benki? 
1. Malalamishi  
2. Mawasiliano ya kihisani  
3. Mawasiliano ya kawaidal  
4. Kwa shida ambazo hazijatatuliwa

C. NYENZO ZA KUKITHI MTEJA

11. Je benki yako hufanya utafiti wa kisoko mara kwa mara? 
1. Naam  
2. Hasha

12. Iwapo ndivyo hapo juu, je umehusika kwa namna yoyote? 
___________________________________________________________________  
___________________________________________________________________  
___________________________________________________________________

13. Je, benki yako hukuhusisha katika ukuaji wa huduma? 
1. Naam  
2. La hasha

14. Iwapo ndivyo, vipi unachukulia kiwango chako cha kuhusishwa na ukuaji wa huduma? 
1. Ninahusika barabara  
271
2. Ninahusika kiasi
3. Sihuvisi kamwe

15. Vipi usazawazisha jumla ya kiwango chako cha kuridhika na benki kuu lako?
   Zawazisha ifuatayo;
   1=yakuridhisha sana, 2=yakuridhisha, 3=wastani, 4=siyakuridhisha, 5=siyakuridhisha sana.
   a) Jumla ya hudumu ya mteja
   b) Uhusiano wa ukaribu
   c) Kutoza riba inayofikiwa na wengi
   d) Wasikifu kwa mahitaji ya mteja
   e) Usuhuba wa wahudumu

16. Je, benki inakupa burudani ya kutosha kukufanya kuhisi vyema unapongonjea?
   1) Ndivyo
   2) Hapana

17. Je, benki lako linakufanya kuwa na ushujaa na uaminifu pindi wanapokuhudumia
   1) Ndivyo
   2) Hapana

SEHEMU YA PILI: KURIDHISHA MTEJA

18. Kwa muda gain umekuwa mteja wa benki hili lako?
   1) Chini ya mwaka mmoja
   2) Mwaka 1-5
   3) Miaka 6--10
   4) Miaka 10-15
   5) Zaidi ya miaka kumi na tano

272
19. Tafadhali onyesha kiwango cah kukubaliana au kutokubaliana kwako na maelezo hayo yanayohusu kuridhika kwako na mazao ya benki. 1=Nakubaliana kabisa, 2=Nakubali, 3=Niko katikati, 4= Sikubaliani nayo, 5=sikubaliani nayo kabisa

<table>
<thead>
<tr>
<th>Maelezo</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Naridhika jinsi malalamishi yangu yanaposhughulikiwa na benki yangu</td>
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<tr>
<td>b) Wahudumu wa benki ni wakarimu na kufikiwa</td>
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<tr>
<td>c) Mimi huondoka benkini nikiwa na hisia ya furaha baada ya kutekeleza lengo langu</td>
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<tr>
<td>d) Benki yangu hukidhi matarajio yangu</td>
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<tr>
<td>e) Huduma za benki hufikiwa kwa wakati wowote</td>
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<tr>
<td>f) Benki hutosa riba inayosawiriana</td>
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<tr>
<td>g) Benki hunijali mimi hadi inatafuta maoni yangu kupitia hojaji</td>
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<tr>
<td>h) Benki yangu kwa utanashati huniuzia mimi bidhaa au huduma mpya</td>
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<tr>
<td>i) Gharama ya kuwekeza kwenye benki ni marufuku kwangu</td>
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</tbody>
</table>

20. Je unahabara kama kuna miradi mengine yanayoendeshwa na benki kuwaridhisha wateja wake?
   1) Ndivyo  
   2) Hapana

21. Toa mapendekezo yako kwa jibu lako la (19) awali.
22. Unahisi kubaguliwa na benki lako?
1) Ndivyo
2) Hapana

23. Utaeleza vipi kuongojea kwako huduma za benki?
1. Yakukera
2. Yakubalika
3. Hayakubaliki
4. Kwa kiasi ni ya kawaida

24. Wakati wa mwisho kutembelea benki, ni sehemu gain ya benki ulipoteza muda?
1) Ndivyo
2) Hapana

25. Ni sababu gani kuu iliyokufanya ungojee?

26. Ni maoni gani utayapendekeza kufanya muda wa kungojea uwe mfupi?
27. Je benki ni nyezo ya kushugulikia hali kama hiyo?
___________________________________________________________________
28. Ni huduma gani za benki inayokuvutia wewe zaidi?
___________________________________________________________________
29. Toa hisia yako kuhusiana na maelezo haya "benk yangu inaweza kuboresha maridhiko yangu"
___________________________________________________________________

**SEHEMU YA TATU: KUHIFADHI MTEJA NA UAMINIFU**

30. Je umewahi badilisha benki lako?
1. Naam
2. La hasha


___________________________________________________________________

32. Tafadhali onyesha kiwango cha kubaliana au kutobaliana wa maelezo yauatuayo yanayokuhusu wewe ukiwa mteja wa benki. 1=Nafiakiana zaidi, 2=nakubaliana, 3=katikati, 4= sikubaliani, 5=sifikiana nayo kabisa

<table>
<thead>
<tr>
<th>Maelezo</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>Nimebadilisha benki yangu kuu kwa miezi 12 iliyopita</td>
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<tr>
<td>Nimefunga akaunti yangu kwenye benki kuu kwa miezi 12 iliyopita</td>
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<tr>
<td>Mimi huangalia na kutarajia bidhaa bora na huduma bora benki zingine</td>
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<tr>
<td>Napenda kutembelea benki yangu mara</td>
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<tr>
<td>kwa mara</td>
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<tr>
<td>Nitanuia kumualika mtu mwingine kujinga na benki yangu</td>
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</tr>
<tr>
<td>Benki yangu ni chaguo la kwanza kwenywe huduma za benki</td>
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<tr>
<td>Gharama ya kuhamia ndiyio inanizua kuhamia benki lingine</td>
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<tr>
<td>Ninasalia kwenywe benki yangu kwani linanikidhi</td>
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</tr>
</tbody>
</table>

33. Unafikiri benki yako imefanya ya kutosha kukuhifadhi wewe kama mteja?
1) Ndivyo
2) Hapana

34. Iwapo jawabu lako kwa swali namabari 34 ni ndivyo, fafanua kivipi

35. Ni kipi hapa kinatumika na benki yako kukadiria huduma kwa mteja?
   a) Maswali kwa jukwaa la benki
   b) Kufuatilia mawasiliano kwa simu
   c) Mmojawapo ya shirika lililoteuliwa
   d) Visanduku vya maoni
   e) Vinginevyo

36. Orodhesha umuhimu kwa kiwango, jinsi upendavyo kupokea mawasiliano kutoka kwa benki?
1. Jarida
2. Kipepesi
3. Barua
4. Ujumbe fupi kutoka kwa rununu
5. Gazet
6. Idhaa za radio au televisheni

37. Unaonelea utasalia kwa benki yako kwa muda gani?
1. Daima
2. Muda fulani
3. japo kitu kama miaka 5
4. Mwaka mmoja

38. Wadhani ni nini kitakufanya kuhamia kwenye mabenki mengine?
1. Gharama ya ukweli ya kisaikolojia
2. Mhudumu asiyefahamika
3. Kwa jumla kutofahamu yajayo
4. Sina hakika kama nitapata huduma bora

39. Kando na nyenzo zilizojadiliwa, ni nyenzo gani tena zinazohusu kiwango chako cha kuridhishwa na bidhaa na huduma za benki?

40. Ni pendekezo gani utakalotoa ili kuimarisha maridhio ya mteja kwa bidhaa na huduma za benki kwenye safu ya masoko ya mabenki nchini Kenya?

ASANTE KWA MAJIBU YAKO
APPENDIX 5: LIST OF COMMERCIAL BANKS IN KENYA

1. Chase Bank Ltd, Nairobi
2. Citibank, Nairobi
3. City Finance Bank, Nairobi
5. Commercial Bank of Africa, Nairobi
6. Consolidated Bank of Kenya Ltd, Nairobi
7. Credit Bank Ltd, Nairobi
8. Daima Bank Ltd, Nairobi
9. African Banking Corporation, Nairobi
10. Akiba Bank, Nairobi
11. Bank of Baroda, Nairobi
12. Bank of India, Nairobi
13. CFC Bank, Nairobi
14. Delphis Bank, Nairobi
15. Middle East Bank, Nairobi
17. National Industrial Credit Bank Ltd, Nairobi
18. Oriental Commercial Bank Ltd, Nairobi
19. Paramount Universal Bank Ltd, Nairobi
20. Prime Bank Ltd, Nairobi
21. Southern Credit Banking Corp. Ltd, Nairobi – NOW MERGED
22. Stanbic Bank Kenya Ltd, Nairobi
23. Development Bank of Kenya, Nairobi
24. Diamond Trust Bank, Nairobi
25. Dubai Bank Kenya Ltd, Nairobi
26. Equatorial Commercial Bank Ltd, Nairobi – NOW MERGED
27. Fidelity Commercial Bank Ltd, Nairobi
28. Fina Bank Ltd, Nairobi
29. First American Bank of Kenya, Nairobi
30. Giro Commercial Bank Ltd, Nairobi
31. Guardian Bank, Nairobi
32. Habib Bank A.G. Zurich, Nairobi
33. Habib Bank Ltd, Nairobi
34. Imperial Bank, Nairobi
35. Investment and Mortgages Bank Ltd, Nairobi
36. K-Rep Bank Ltd, Nairobi
37. Standard Chartered Bank, Nairobi
38. Trans-National Bank Ltd, Nairobi
39. Barclays Bank of Kenya
40. Victoria Commercial Bank Ltd, Nairobi
41. Kenya Commercial Bank
42. Ecobank
43. Housing Finance Co. Ltd, Nairobi – MORTGAGE BANK

Source: www.centralbank.go.ke
## APPENDIX 6: ETHICS BOARD APPROVAL

<table>
<thead>
<tr>
<th>Student Name</th>
<th>PN MBURU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Number</td>
<td>208094554</td>
</tr>
<tr>
<td>Degree</td>
<td>DBA</td>
</tr>
<tr>
<td>Supervisor/Promoter</td>
<td>PROF H VAN ZYL</td>
</tr>
<tr>
<td>CO: DR M CULLEN</td>
<td></td>
</tr>
<tr>
<td>Title of Dissertation</td>
<td>DETERMINANTS OF CUSTOMER SATISFACTION AND RETENTION: A SURVEY OF THE BANKING INDUSTRY IN KENYA.</td>
</tr>
</tbody>
</table>

**RESOLVED** to **RECOMMEND** that the proposal be accepted. It was **NOTED** that this proposal required no further Ethics approval.