

**STRATEGIES OF CUSTOMER RETENTION AMONG COMMERCIAL  
BANKS IN KENYA: A CASE OF BANK OF AFRICA, KENYA**

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**13S03EMBA003**

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**DECLARATION**

I declare that this applied project is my original work and that it has not been presented in any other university for academic credit.

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**SUPERVISOR'S DECLARATION**

This applied research project is submitted for examination with my approval as the university supervisor.

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## **DEDICATION**

I dedicate this work to Almighty God and my family for the great support during my studies.

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## ABSTRACT

A customer is one of the significant assets for any profit-making firm, hence most profit making firms strive to acquire and retain as many customers as possible so as not to experience nose-diving of profits. While few existing researches have shown that product and or quality of service results in acquisition and retention of business customers, some few researchers with little empirical data also recommend that corporate image and customer loyalty affects acquisition and retention of existing customers. In business terms, retention of customers directly affects profitability of firms and acquiring new business customers is one of the most challenging tasks, thus most profit making firms invest a lot in customer retention strategies. This research therefore investigated the influence of customer loyalty programs, corporate image, service and product quality on customer retention in commercial Banks in Kenya. Explanatory survey design was used to explain hypothesized relationships, thus the influence of the independent variables (customer loyalty programs, corporate image, service quality, product quality) on customer retention (dependent variable). The study targeted 142 employees from 17 branches of Bank of Africa in Nairobi, Kenya. From a target population of 142 respondents, a sample size of 105 was calculated as per Taro Yamane's proportional sampling technique formula; from which stratified sampling technique was applied to select 105 sampled employees of Bank of Africa in Nairobi, Kenya, to participate in the study. From 105 questionnaires that were dispatched to respondents for data collection, 97 respondents returned completely filled questionnaires representing a response rate of 92.45% which is very good for generalizability of research findings to a wider population. Both descriptive and inferential statistics showed that all conceptualized study variables (customer loyalty programs, corporate image, service and product quality) significantly influence customer retention (dependent variable). The study concludes that one, customer loyalty programs being rolled out by many commercial banks can significantly attract and retain loyal customers; two, that commercial bank's corporate image determines its reputation in the public eyes, thus banks with a positive reputation can really attract and retain a number of bank customers. The study recommends that one, commercial banks should articulately utilize viable customer loyalty programs to engage loyal customers so as to attract and retain a strong customer base; two, commercial banks should carefully guard their public image to avoid huge reputational costs used to redeem and maintain impaired corporate image that consequently affects customer attraction and retention. Lastly, commercial banks should heavily invest in customer service quality to minimize customer switching behavior which has a bearing on customer retention.

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**LIST OF ABBREVIATIONS**

<b>ATM</b>	:	Automated Teller Machines
<b>CBK</b>	:	Central Bank of Kenya
<b>SPSS</b>	:	Statistical Package for Social Sciences
<b>UK</b>	:	United Kingdom
<b>HR</b>	:	Human Resource
<b>VIP</b>	:	Very Important Persons
<b>IMF</b>	:	International Monetary Fund

## DEFINITION OF TERMS

**Corporate image:** Defined as the sum of beliefs, ideas, and impressions that members of public have of a firm pertaining business name, product or service varieties, ideology, plus the impression of quality communicated by all firm employees or stakeholders who have close association with business customers (Marken, 2004).

**Customer loyalty program:** An integrated and interactive system of marketing actions that aims to make customers more loyal by developing personalized relationships with them (Meyer, 2007).

**Customer retention:** The ability to hold on business customer over time (Bateson & Hoffman, 2002).

**Service quality:** A measure of how well the service level delivered matches customer expectations (Munusamy, Zeithaml & Berry, 2010).

**Product quality:** This is to incorporate features that have a capacity to meet consumer needs and wants and gives customers satisfaction. It can also be defined as how well a product does what it is supposed to do (Munusamy et al., 2010).

## **CHAPTER ONE: INTRODUCTION AND BACKGROUND OF THE STUDY**

### **1.1 Introduction**

The study investigates the influence of customer loyalty programs, corporate image, service and product quality on customer retention in the Bank of Africa's 17 branches in Nairobi; the Nairobi branches were chosen because of the central location and thus handle diverse clientele. This chapter covers background of the study, statement of the problem, objectives of the study, hypotheses of the study, significance of the study, scope of the study plus limitations and delimitations of the study. A thematic approach has been used to guide the chapter.

### **1.2 Background of the Study**

Retention of customers has come up as a strategic issue in many firms facing competition from rivals and basically implies the emotions evoked by the customer experience combined with the organization's strong reputation. Without the emotional bond, which is critical to retain customers, customer loyalty cannot be achieved. Customer retention is thus key to most profit making firms because the cost of getting a new customer is greater than the cost of upholding a relationship with a present customer (Singh & Khan, 2012). Thus, customer retention strategies attract and retain customers who also market the business to friends and relatives and further purchase not only one product but varied products from companies of their choice (Rocking, 2005); Singh & Khan (2012).

Many profit making firms therefore come up with varied customer retention programs so as to attract and retain business customers (Singh & Khan, 2012). Further, Ray (2015), posit that customer loyalty programs should have essential designs, since they differ according to different groups of members based on their value and they need to provide greater value at higher customer value tiers, by rewarding best customers to

encourage higher spending levels. In order to do that the organization needs to understand their customer's needs and behaviors, by creating customer profiles with relevant data on customer interactions to have a complete picture of a customer's preferences (Ray & Shaw, 2015).

Secondly companies also protect their corporate image since a company's reputation may affect its competitive advantage and have significant impact on customer retention. Chun and Davies (2006), Zins (2000) in addition to Kandampully and Suhartanto (2000) acknowledged a number of business managers of prosperous business firms who enjoyed a competitive edge over rivals as a result of their companies' good corporate image. Thus, good corporate image and perceived good relationships are important variables that help customers understand, process, recall and recognize information because the customers benefit in other ways from long-term associations with the organization. The perceived relationship benefits add to the perceived value of the product because the relationship is strengthened when customers perceive benefits beyond their satisfaction with the core product. Also, relational benefits have an indirect effect on customer loyalty via perceived value which positively influences loyalty (Kandampully & Suhartanto, 2000).

Lastly, service and product quality are assumed to attract and retain customers in any business entity (Munusamy et al., 2010). From literature review, Ioanna (2002) asserts that quality of service especially attributed to bank employees who attend to customers directly can really assist a bank in gaining a competitive advantage in the banking industry. The scholar (Ioanna, 2002) additionally suggested that product differentiation can be difficult where the quality of service thrives more. This is because most commercial banks offer same products; hence, the most sustainable strategic option for

commercial banks is to invest in quality of service to enable them acquire and retain business customers.

### **1.2.1 Commercial Banks in Kenya**

Commercial banking is the determinant of current Kenyan economy as it enables resources to flow. This is affirmed by Ongore (2013) who states that commercial banks play a pivotal role in a country's development but even though financial performance of banks is reported as good in Kenya, there are a couple of banks indicating losses due to various factors like customers switching banks hence affecting customer base (Ogilo, 2012). In Kenya due, to very stiff competition banks have resorted to diversification through identification of diverse customer needs and some commercial banks have made a lot of changes so as to reach many customers (CBK, 2015).

According to IMF Report (2014), banks have tended to concentrate on how to raise capital and to reduce the balance sheet risk so as to meet the required level of performance and the way investors tackle uncertainties and treat risk goes a long way in determining their customer base which impacts on financial performance (Ongore, 2013).

Further, Muiruri and Ngari (2014) reported that though there has been a growth in Kenya's commercial banking business, the trend in performance of some banks has been dwindling owing to macro and micro economic factors. While many researches have dwelled on profitability of commercial banks, customer retention is a major antecedent of commercial banks profitability, a gap that will be filled by this research that endeavors to examine influence of customer loyalty programs, corporate image, service and product quality on customer retention in Bank of Africa, Nairobi, Kenya.

### **1.2.2 Bank of Africa Kenya**

Bank of Africa is an established commercial bank situated in Nairobi- the commercial epicenter of Kenya with branches countrywide. It provides banking services to Corporate, Small and Micro Enterprises and the retail clientele. The bank operates 32 branches across Kenya 17 of which are located within Nairobi County. The bank also operates Branches within Kisumu, Kakamega, Bungoma, Kajiado, Narok, Kericho, Thika, Meru, Uasin Ngishu , Nakuru, Mombasa and Kisii Counties.

The Bank's vision is to be the preferred Bank to its chosen market. Bank of Africa Kenya is part of the Bank of Africa Group with its headquarters in Dakar Senegal and has presence in over 16 African countries namely, Kenya, Uganda, Djibouti, Ghana, Tanzania, Togo, Senegal, Mali, Niger, Madagascar, Benin, Burkina Faso, Burundi, Democratic Republic of Congo and Ivory Coast with further plans of expanding.

The Bank is licensed under the Banking Act and is regulated by the Central Bank of Kenya.

### **1.3 Statement of the Problem**

A business customer is a major resource for any profit making firm, thus profit making firms that lack customers cannot have sustainable profits (Griffin, 2002). While few researches; Caruana (2002); Gronroos (2007); Griffin (2002); reveal that improving service in addition to quality will yield higher acquisition and retention of business customers, some few researchers with little empirical data also recommend that corporate image and customer loyalty also affects acquisition and retention of business customers. McIlroy and Barnett (2000) reported that customer retention directly affects the profitability of firms, therefore, most profit making firms spend a lot of their resources in ensuring that they retain their current customer base (Karim, 2011). Existing literature reveals divergent mechanisms used to retain customers. For instance,

Liu (2007), reported that normally, customer loyalty systems are better utilized by assessing the appropriateness of the loyalty programs and customer satisfaction levels, an assertion which Keh and Lee (2006) also agree with. Demoulin and Ziddah (2008) found that contented customers on loyalty program are normally more loyal to the firm yet less sensitive to price changes, but interestingly overuse of customer loyalty programs can result in a decline in customer satisfaction (Liu & Yang, 2009). With regards to Kenya, there is stiff competition among commercial banks, characterized by the push and pull for an increase in customer base, a greater market share or value, more profits and greater returns to the shareholders. Further, due to the lack of product and or service differentiation and poor corporate image of some banks, customers are oftenly switching from one commercial bank to another, thus making many commercial banks to re-strategize because customer retention is key for their business survival. In this regard, lack of adequate empirical data and inconsistencies in literature review about what significantly influences customer retention in commercial banks motivated this research to investigate the influence of customer loyalty programs, corporate image, service and product quality on customer retention in commercial banks; a case of Bank of Africa, Nairobi, Kenya.

#### **1.4 Objectives of the Study**

This study was guided by general and specific objectives as follows;

##### **1.4.1 General Objective**

The general objective of the study was to investigate strategies of customer retention among commercial banks; a case of Bank of Africa, Nairobi, Kenya.

### **1.4.2 Specific Objectives**

- i. To determine the influence of customer loyalty programs on customer retention in commercial banks in Kenya.
- ii. To examine the influence of corporate image on customer retention in commercial banks in Kenya.
- iii. To determine the influence of service quality on customer retention in commercial banks in Kenya.
- iv. To evaluate the influence of product quality on customer retention in commercial banks in Kenya.

### **1.5 Research Hypotheses**

H<sub>01</sub>: Customer loyalty programs do not significantly influence customer retention in commercial banks in Kenya.

H<sub>02</sub>: Corporate image does not significantly influence customer retention in commercial banks in Kenya.

H<sub>03</sub>: Service Quality does not significantly influence customer retention in commercial banks in Kenya.

H<sub>04</sub>: Product Quality does not significantly influence customer retention in commercial banks in Kenya.

### **1.6 Significance of the Study**

First, findings from the research will be valued by policy makers who would craft suitable customer loyalty programs to be implemented in commercial banks in Kenya so as to retain customers and also this study finding will guide the government and bank

regulatory authorities in formulating requisite policies that govern loyalty programs in business firms.

Secondly, findings of the research could assist key stakeholders of banking institutions in Kenya to understand requisite customer retention strategies in terms of investing in reputational costs to protect corporate image, improve product and service quality so as to achieve a sustained competitive advantage over rivals in commercial banking business.

Thirdly, to researchers, this study will provide empirical data on the efficacy of customer loyalty programs, corporate image, service and product quality on customer retention in commercial banks. This study will therefore provide a theoretical and practical approach regarding the utilization of customer loyalty programs, corporate image, service and product quality in creating and retaining a strong customer base in financial lending institutions.

### **1.7 Scope of the Study**

The research was done in Bank of Africa with a focus on the influence of customer loyalty programs, corporate image, quality of service and product quality on customer retention in Bank of Africa in Kenya. The research was carried out in the Month of October 2019.

### **1.8 Limitations of the Study**

First, the research was done in one commercial bank- Bank of Africa situated in Nairobi, Kenya, examining how customer loyalty programs, corporate image, service and product quality influence customer retention in Bank of Africa, Kenya. The results from which shall be generalized to all commercial banks in Kenya from tier one to tier

three. Secondly, the results might not be generalized to rural based commercial banks located outside Nairobi, Kenya.

### **1.9 Delimitations of the Study**

Bank of Africa is an established commercial bank situated in Nairobi- the commercial epicenter of Kenya thus the customer retention strategies employed by Bank of Africa could be more or less similar to other established commercial banks also located in Nairobi city- the business hub of Kenya. Secondly, most established commercial banks located in Nairobi have branches in rural Kenya or satellite towns of Nairobi city, hence the customer retention strategies (customer loyalty programs, corporate image, service and product quality) applied in commercial banks' headquarters in Nairobi are simply simulated by their branches in rural towns and also mimicked by smaller commercial banks in the countryside or in satellite towns of Nairobi city, thus the study findings can be generalized to all commercial banks whether rural or urban based. Thirdly, the study targeted 142 employees from 17 branches of Bank of Africa in Nairobi, Kenya who have similar characteristics like employees of other commercial banks and the sample size (105) is largely representative, thus the results will meet the generalizability threshold.

### **1.10 Conceptual Framework**

Mugenda and Mugenda (2003) defines the conceptual frame work as a thinking schema through which different aspects of research projects are organized and their presumed relationships are constructed with the aim of guiding a researcher throughout the process and position him or her in relationship to the research in terms of theoretical and ideological inclination. In this regard, this research has conceptualized four independent variables (customer loyalty programs, corporate image, service quality, product quality) hypothesized to influence customer

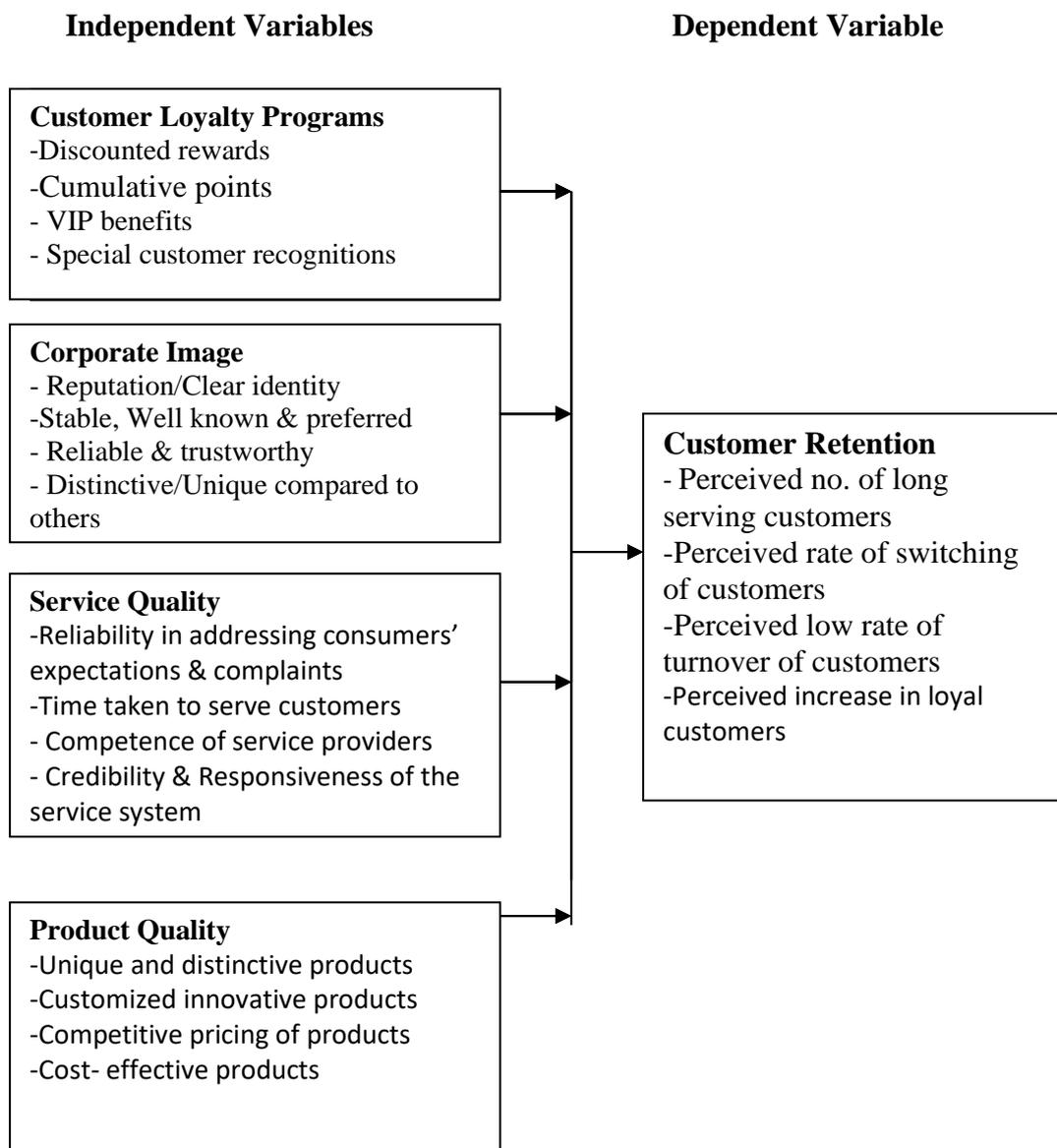
retention in Bank of Africa (the dependent variable).

First, by definition, a customer loyalty program is an old concept which dates back to 1896 where customers would be given green post stamps which were used for the purchase of household and other consumer goods but slowly, the stamps lost popularity as new forms of loyalty programs came on board (Griffin, 2002).

In the banking sector, customer loyalty programs are perceived as an effective customer relationship management initiative meant to influence customer retention in commercial banks. Thus to design effective customer loyalty programs, Ross and Siddigi (2011) suggested that commercial banks should determine which actions and approaches appeal to customers.

Secondly, corporate image is essentially a sum of impressions that a public has of an organization, thus, is related to business name, architecture, variety of products or services, tradition, ideology and to the impression of quality communicated by each person interacting with the organization's clients (Marken, 2004). Therefore, in relation to this study, a commercial bank's public image has a huge bearing on customer acquisition and customer retention.

Lastly, service and product quality are assumed to attract and retain customers in any business entity (Munusamy et al., 2010). Therefore, bank employees need to understand customer needs according to Ouyung (2010) and customer preferences (Timothy, 2012). Therefore, this study will assess whether perceived service and product quality as a form of attitude, that satisfies commercial bank customers can influence their retention to the commercial bank where they already belong.



**Figure 1.1: Conceptual Framework**

**Source: Researcher (2019)**

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

The section entails review of related literature on how customer loyalty programs, corporate image, quality of service and product quality influences customer retention in commercial banks. The chapter has also reviewed the theoretical framework that was used in the study and empirical review of existing researches related to the study.

### **2.2 Theoretical Review**

Muiruri and Ngari (2014) define a theoretical framework as a guide to the research design, choice of study variables, choice of statistical analysis and interpreting study findings. This section focuses on the various theories supporting the study, that is, the theories that underpin the study namely, the attribution theory and the risk aversion theory.

#### **2.2.1 Attribution Theory**

This theory explains customer responses to service and product failures (Blodgett, Hill, & Tax, 1997). Attribution theory thus asserts that generally, discontented consumers who contemplate that a firm could be having external problems will really disassociate with that firm and condemn it than some similarly discontented customers who will remain attached to the firm with a hope that things might change. That is customers' negative attitude about a certain business entity can develop negative behavior towards it and discourage potential new customers (Swanson & Kelley, 2001). Therefore, this theory applies in this study in the sense that commercial banks' customer responses to bank products and service failures will make them develop certain attitudes and behavior towards the banks and then form a basis for their switching from one bank to another which definitely affects customer retention at the affected banks.

### **2.2.2 Risk Aversion Theory**

Risk aversion is an investor's general desire to avoid participation in "risky" behavior or risky investments (Menezes & Hanson, 1997). This theory thus postulates that investors typically wish to maximize their return with the least amount of risk possible. When faced with two investment opportunities with similar returns, good investor will always choose the investment with the least risk as there is no benefit to choosing a higher level of risk unless there is also an increased level of return. Insurance is a great example of investors' risk aversion. For instance, given the potential for a car accident, an investor would rather pay for insurance and minimize the risk of a huge outlay in the event of an accident. This theory therefore connects to this study in the sense that some commercial banks fear profitability risks associated with customer switching behavior, declining market share and low customer base thus will risk investing in customer retention strategies like loyalty programs, service and product range and quality in addition to protecting the bank's image which can lead to high reputational costs if the bank's public image is compromised.

### **2.3 Empirical Review**

A number of empirical studies on determinants of customer retention have been reviewed as below.

#### **2.3.1 Customer Loyalty Programs and Customer Retention in Commercial Banks**

Ray (2015) posit that customer loyalty programs should be designed with more targeted rewards, because they differ according to different groups membership based on their worth and also have to offer greater value at higher customer value tiers by rewarding best customers to encourage higher spending levels. In order to do that, the organization needs to understand their customer's needs and behaviors by creating customer profiles

with relevant data on customer interactions to have a complete picture of a customer's preferences (Ray, 2015).

Further, Omar, Azrin and Sarah (2009) found that introduction of customer relationship marketing instruments by retailers has been strongly increased in recent years both in theory and practice. That is, customer loyalty programs have become a popular choice of marketing strategy by retailers who believe that loyalty programs are an important strategy and mechanism for retailers to build store traffic, increase basket size and increase frequency by creating deeper relationship with their customers. However, some members in the marketing industry have begun to question the effectiveness of loyalty programs in obtaining customers' support and loyalty.

Empirically, Karim (2011) did a study on UK supermarkets with a view of ascertaining the role of loyalty programs on customer retention. The study revealed that loyalty programs enhanced customer loyalty directly by offering rewards which acted as incentives to purchase regularly at any supermarket (Karim, 2011). Further findings indicated that loyalty programs generate considerable information for supermarkets, including a customer's name, address and purchase preferences. Supermarkets can use this information to tailor product offerings, promotions, investment and advertising to the requirements of the customers, thereby indirectly enhancing loyalty and customer retention (Karim, 2011). The study recommended a similar study to be done in commercial banks in order to compare results which will be addressed in this study.

More so, Chibaya (2016) asserted that loyalty programs in South Africa arose as a crucial tool for customer retention and building sustainable customer loyalty through enhanced relationships. Many companies are offering loyalty cards to customers. The South African Loyalty and Rewards Survey identified a total of 101 rewards programs in South Africa (Chibaya, 2016). This figure has experienced significant growth over

the last two decades, however, the last eight years have seen the largest annual growth of loyalty programs and surveys into the loyalty industry, indicated that the South African consumer has an average of ten loyalty programs that they are signed up to per household (Chibaya, 2016).

Further, Sallem, Zahra, Ahmad and Ismail (2016) insist that customers mean a lot to any business since their lack of switching to other companies makes the company grow in customer base because existing customers act as referrals and attract new customers to the business. Therefore, crafting of customer loyalty programs act as strategies to retain a high number of customer base given the competitive nature of the business environment (Seto, 2012).

More so, Oliver (1999) posits that loyalty of customers to a business firm is the deeply held customers' affection and association with the organizations' product or the organization itself. Besides, a customer is also supposed to portray these five kinds of behaviors; (1) praise the service provider to others, (2) recommend the service provider to others, (3) encourage friends and relatives to patronize the service provider, (4) prioritize the service provider products over others, and (5) carry out repeat purchases (Chi-Chen, Chang & Chuang, 2016).

### **2.3.2 Corporate Image and Customer Retention in Commercial Banks**

Some scholars assert that to project an effective corporate image, it is important for the organization to understand all the various interest groups perceptions, expectations and needs. This is more so due to the fact that these needs can differ between the groups. Importantly, corporate image affects the way in which various stakeholders behave towards an organization. According to Robert and Dowling (2007), a positive image tends to encourage shareholders to invest in a company, attract good staff, retain

customers, increases profits and correlates with superior overall returns. Martineau (2000) further likened the image of a business firm with that of a person, thus a customer with a strong personal image will wish to identify with a business firm also having a good reputation and Bernstein (2004) further adds that a company's image means everything to its products and services.

Chun and Davies (2006), Zins (2000), Kandampully and Suhartanto (2000) identified a group of leaders of successful organizations who enjoyed a unique and sustained competitive advantage by showing greater concern for customers which was achieved by focusing on building strong relationships. Thus, good corporate image and perceived good relationship are important variables that help customers understand process, recall and recognize information because the customers benefit in other ways from long-term associations with the organization. The perceived relationship benefits add to the perceived value of the product because the relationship is strengthened when customers perceive benefits beyond their satisfaction with the core product. Also, relational benefits have an indirect effect on customer loyalty via perceived value which positively influences loyalty (Kandampully & Suhartanto, 2000).

Sergeant and Frenkel (2008) further reiterated that the interaction between customer and employees as part of the service on offer is likely to affect customer satisfaction and repeat patronage which enhances an organization's image. They argue further that motivated employees stay with the company longer and get to know their customers better, thus leading to better service, greater customer satisfaction, improved relationship and enhancement of the corporate competitive advantage. Again, repeat patronage by customers satisfied with the value they receive and their contentment with the service offer is a source of pride and energy for employees. Therefore, the link

between happy employees and happy customers shows some levels of organizational effectiveness which is a pointer to a good corporate image (Sergeant & Frenkel, 2008).

Bloemer, De Ruyter and Peeters (1998) investigated the image related issues in banks and pointed out that a positive brand image of a bank significantly improves perceived service quality. That is, brand image is a critical determinant of service quality. The idea behind brand image is that the consumer is not purchasing just the product or service but also the image associated with that product or service. Brand images should be positive, unique and instant. Brand image is not necessarily created, but is automatically formed and includes products' appeal, ease of use, functionality, fame, and overall value.

Further, Fry (2002) found out that brand image has a direct effect on loyalty while Chun (2002) found, in contrast, that brand image has an indirect influence on loyalty via customer satisfaction, while Chun and Davies (2006) suggested that brand image correlates with customer satisfaction, hence, brand image has been recognized as an important antecedent of customer satisfaction. This therefore means that a positive bank brand image will tend to generate high customer satisfaction in a commercial bank. However, most of these studies do not exhaustively show empirical evidence to show that corporate image directly affect customer retention, a gap that has been filled by this study.

### **2.3.3 Service /Product quality and customer retention in banks**

Quality of service is the difference between customers' expectations for the service encounter and the perceptions of the service received, thus, customer expectation and perception are the two key ingredients in service quality. (Munusamy et al., 2010)

For instance, Ioanna (2002) revealed that a worthy service delivery elicits the best outcome in terms of customer satisfaction, hence, ensure customer retention, while Ioanna (2002) further suggested that product variation could be impossible in a competitive business like the banking industry where service quality thrives more. This is because most financial lending institutions are providing similar products; hence, bank management tends to distinguish a commercial bank from rivals by prioritizing the quality of their services.

More so, Wand and Wang (2006) conducted their study to gain a better understanding of how internet affects service quality in the banking sector by use of descriptive and qualitative data on multiple case studies and the results pointed to an assertion that bank service influences bank customer retention, that is, accessibility of bank service, such as convenience of ATM services could definitely influence customer retention.

Chatura and Andy (2003) study in England revealed that conceptualized study variables (service quality and price) significantly influenced retention of customers in the telephone industry. The study further revealed that price was the major reason for switching but when the quality of service is compromised it will act as trigger for switching to other firms (Chatura & Andy, 2003).

Furthermore, Gabriel (2005) was involved in mapping the banking industry of Tanzania using 22 banks to assess the attractiveness of the industry within ten years (1995 – 2005). The study revealed that, there is need for quality service to make sure customer is retained because of increased competition between the existing rivals, prospective new entrants and existing customers. The study also revealed that rivalry among existing banks is very high following the increased number of banks in the industry; hence use of service quality could be an effective customer retention strategy.

Similarly, Mbinile (2010) studied on quality of service in banks in Tanzania and found that 70% of customers agreed that bank branches performed promised services dependably and accurately, 12% did not believe bank branches perform promised services dependably, and 18% were uncertain. Research further found that, 62% of the respondents believed that bank branches employees could tell the customers exactly when they will provide services to them, 9% disagreed and 29% were uncertain. Another factor investigated was employees courtesy where the study revealed that, 70% agreed that bank branch employees could convey confidence and trust customers; 12% disagreed and 18% were uncertain. Lastly, 53% agreed that bank branches were giving customers individual attention and bank branches operated in convenient hours to the customers; moreover employees of bank branches were willing to be flexible to accommodate customer's schedules. While findings by Mbinile (2010) indicates that there is good quality of service within the Tanzanian banking sector, the findings however, do not tell if the qualities observed by customers influence their retention.

Therefore, this study will assess whether perceived service and product quality as a form of attitude, that may satisfy commercial bank customers, can influence their retention to that commercial bank where they belong.

#### **2.4 Summary of the Reviewed Literature**

Existing literature reveals divergent mechanisms used to retain customers in profit making firms. First a stream of researchers, Ioanna (2002), Chatura and Andy (2003), Gabriel (2005), Wand and Wang (2006), Mbinile (2010), Gbadeyan and Gbonda (2011), Timothy (2012) have had inconclusive researches on influence of service and product quality, while other researchers, Zins (2000), Chun (2002), Chun and Davies (2006) and Robert and Dowling (2007) also showed that corporate image influences

customer retention but with little empirical evidence. Further, there have also been little empirical researches on customer loyalty programs in commercial banks.

For instance, scholars such as Liu (2007), Keh and Lee (2006); Demoulin and Ziddah (2008); Soderlund and Colliander (2015); Liu and Yang (2009) have reported divergent views about the efficacy of customer loyalty programs on customer retention in different business entities with little regard to commercial banks which too require customer retention programs.

## **2.5 Knowledge Gap**

There is lack of adequate empirical data on what really influences customer retention in commercial banks and the little empirical literature reveal inconclusiveness. For instance, one stream of researchers has dwelled on the use of customer loyalty programs in non-banking business entities with mere recommendations and narrations on how banks can adopt them but with little (if any) empirical evidence. Another stream of scholars have asserted that product and service differentiation strategies may not be as effective in the banking industry, while differentiation strategy proponents emphasize the use of product and service quality in commercial banks because customers' perception of product and service quality determines their switching behavior whether from one bank or product to another.

Further, another stream of scholars assert that corporate image may affect non-loyal and loyal customers while other researchers asserted that poor corporate image may drift away a substantial number of bank customers thus impacting negatively on the bank's market share. Therefore, lack of adequate empirical evidence about what significantly influences customer retention in commercial banks is a gap that will be filled by this research that endeavors to empirically investigate the significant influence

of customer loyalty programs, corporate image, service and product quality on customer retention in commercial banks; a case of Bank of Africa, Nairobi, Kenya.

## **CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY**

### **3.1 Introduction**

The chapter entails the research design that was used in the study, target population, sampling techniques, data collection instruments and data analysis

### **3.2 Research Design**

According to Kothari (2007), a research design is the process under which data is collected and analyzed in a way that seeks to combine relevance to the research purpose. In this study, explanatory survey research design was employed. That is, the explanatory design explores associations (cause-effects relationships) that are conducted in order to explain any behavior or reactions of people to a given phenomenon in the society (Manoj & Varun, 1998).

### **3.3 Research Site and Rationale**

The study was carried out on the Bank of Africa Kenya Limited, Nairobi branches. The Nairobi branches were chosen because of the central location and thus handling diverse clientele hence considered a good site for the study.

### **3.4 Target Population**

This study targeted 142 employees from 17 branches of Bank of Africa in Nairobi, Kenya. One of the Bank's Branches as at the time of this research did not have a Branch Manager hence the reason why there were only 16 Branch Managers from the target population. Additionally, within Nairobi, the Bank only had one Head of Business Centre who oversees the Bank's service center for its Corporate clients. The population of interest is stratified as follows:

**Table 3.1: Target Population**

<b>Category of Employee</b>	<b>Number of Targeted Respondents</b>
Head of Business center	01
Branch Managers	16
Relationship managers	08
Customer service managers	32
Customer service officers	06
Relationship officers	28
Tellers	51
<b>Total</b>	<b>142</b>

Source: Bank of Africa, HR Department

### 3.5 Sampling Procedures

Cooper and Schinder (2007) define sampling frame as a list of all the items or elements in the population where a sample is drawn. For this research it comprised of bank staff from 17 branches of Bank of Africa in Nairobi, Kenya.

Existing literature on sampling methods offers various strategies for determining sample size. That is, a researcher may use a census for small population or apply formulas to calculate sample size, provided a study sample is sufficient enough so as to capture the desired effect, size and be representative of the target population (Dillman, 2000).

The study's sample size was determined using Taro Yamane's proportional sampling technique formula since we had a finite population and the population size was known.

### 3.6 Sample Size

A sample size was calculated as per Taro Yamane's proportional sampling technique formula shown below,

$$n = N / (1 + (e)^2)$$

Where n = Sample size

N = population under study

E = margin error (0.05)

1 = constant

Therefore;

$$n = 142 / (1 + 142 (0.05)^2)$$

$$n = 142 / (1 + 142(0.0025))$$

$$n = 142 / (1 + 0.355)$$

$$n = 142 / 1.355$$

$$n = 104.797 \text{ rounded off to } 105$$

From the calculation 105 was used for this study as the sample size. Sample was drawn randomly from employees of Bank of Africa in Nairobi, Kenya as per the break down in table 3.2 below.

**Table 3.2: Sample Size**

<b>Category of Staff</b>	<b>No. staff (N)</b>	<b>Sample n= (N/Target Pop.) x Sample size</b>
Head of Business center	01	01
Branch Managers	16	12
Relationship managers	08	6
Customer service managers	32	24
Customer service officers	06	04
Relationship officers	28	21
Tellers	51	37
<b>Total</b>	<b>142</b>	<b>105</b>

Source: Researcher (2019)

Sampling technique is a process whereby individuals are selected for a study (Mugenda & Mugenda, 2003). The study employed stratified random sampling technique which provided guidance on how sampled employees of Bank of Africa in Nairobi, Kenya, were selected. The stratified sampling technique ensures that it has minimized sample selection bias and ensures that certain elements of the population are not overrepresented or underrepresented (Mugenda & Mugenda, 2003). The study included all 17 branches of Bank of Africa in Nairobi, Kenya where respondents were stratified according to the employee cadres as shown in table 3.2 above and simple random sampling used to randomly pick respondents from each stratum.

### **3.7 Data Collection Procedures**

As required by ethical practices in research, the researcher secured legitimate documents such as researcher's introductory letter, respondents' consent forms and a letter of identification from Nazarene University. The questionnaires were self-administered through sending hard copies of the questionnaires to the respondents and thereafter picking them.

### **3.8 Research Instruments**

Primary data was collected by means of self-administered questionnaires. Kothari (2007) insists that questionnaires are simple to administer and collect a lot of information. These questionnaires were structured and designed in multiple choice formats. Section one introduced the researcher, topic of research and its purpose to the respondent. Section two included demographic data of the respondents such as education level, gender and age while section three dwelt on the independent and dependent variables of the study.

#### **3.8.1 Piloting of Research Instruments**

Kothari (2007) asserts that a pilot study is a small-scale preliminary study before the main research in order to measure the validity and reliability of data collection instruments. For purposes of this research, all components of the questionnaires were checked and coded to ensure clarity of words and the accuracy of the statements, then pretested to an established commercial bank in Nairobi other than Bank of Africa. Ten respondents were used for the pilot study. This is because of the necessity to pretest the instruments of the research on a small sample of respondents in a preparatory exercise to find out if there were any weaknesses in the instruments so that they could be corrected.

#### **3.8.2 Validity of Findings**

According to Neuman (2005), validity is the quality attributed to proposition or measures to the degree to which they conform to established knowledge or truth. An attitude scale is considered valid, for example, to the degree to which results conform to other measures of possession of the attitude. Thus, content method was applied to check validity, whereby 10 copies of the instrument were used during pilot testing for

validation. That is, pretesting of research instrument was used to confirm that questions were well written, meaningful plus having adequate content so as to ensure content validity.

### **3.8.3 Reliability of Research Instruments**

According to Mugenda and Mugenda (2003), reliability of an instrument is the measure of the degree to which a research instrument yields consistent results or data after repeated trials. Pilot testing was done where a Cronbach alpha was computed using SPSS version 24. A threshold cronbach alpha coefficient of at least 0.70 was deemed reliable (Mugenda & Mugenda, 2003).

### **3.9 Data Analysis and Presentation**

All collected data was coded, cleaned, tabulated and analyzed using descriptive and inferential statistics with the aid of specialized Statistical Package for Social Sciences, version 24.

Descriptive analysis such as frequencies, means and standard deviation were utilized whereas analyzed data was presented in tables and graphs.

Further, inferential statistics assessed nature and the strength of the relationships. SPSS version 24 was the analysis computer software that was used to compute statistical data.

Study statistical model

$$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

$y$  = Customer retention in Bank of Africa, Nairobi, Kenya.

$\beta_0$  = Constant

$X_1$  = Customer loyalty programs

$X_2$  = Corporate image

$X_3$  = Service quality

$X_4$  = Product quality

$\{\beta_0-\beta_4\}$  = Beta coefficients

$\varepsilon$  = the error term

### 3.9.1 Underlying Assumptions of Multiple Regression Analysis

The following assumptions summarized by Hair, Black, Babin and Anderson (2006) that underlie multiple regression model of analysis were put into consideration.

**Normality.** This was tested by histogram with normal curve whereby the curve should show a bell-shaped distribution.

**Test of Linearity.** This was tested by correlation coefficients and correlation results ought to show that a conceptualized independent variable has significant correlation with the dependent variable.

**Multi-collinearity.** This tests whether conceptualized criterion variables are highly correlated with each other because this could create problems of understanding which exact independent variable contributes to the variance explained in the dependent variable. This assumption was checked by the inspection of correlation coefficients whereby, the coefficients of predictor variables must be less than 0.9 so as to guarantee that no independent variable was correlated with another.

**Accuracy of data.** The study computed cronbachs alpha (measuring reliability) and utilized content validity to check this assumption. This also confirmed that data collection tools were valid and reliable for use in the study.

### 3.9.2 Testing of study hypotheses

The study tested a total of four hypotheses (**H<sub>01</sub>**, **H<sub>02</sub>**, **H<sub>03</sub>**, **H<sub>04</sub>**) stated in null form and tested at  $p < 0.05$  using regression analysis after the summated scores of categorical data were statistically transformed into continuous data using SPSS so as to allow running linear and multiple regression analyses. Therefore, in testing the hypotheses the following procedure was adopted;

(Null Hypothesis) **H<sub>01</sub>**: Customer loyalty programs do not significantly influence customer retention in Bank of Africa in Nairobi, Kenya.

(Alternative Hypothesis) **H<sub>A</sub>**: Customer loyalty programs significantly influence customer retention in Bank of Africa in Nairobi, Kenya.

Then the test statistic results was provided at  $p < 0.05$ .

### 3.10 Ethical Considerations

First, all respondents participated in the study voluntarily and they were assured that their identity would be concealed by not writing their name as the questionnaire designed does not require ones name. Further, the information sought would be for the purpose of the study only.

## CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

### 4.1 Introduction

This chapter presents reliability tests, response rate, demographic data, descriptive statistics, inferential statistics and hypothesis testing.

#### 4.2.1 Reliability tests

Reliability of the research instruments was done using Cronbach alpha (a measure of internal consistency).

**Table 4.1: Reliability test**

Variable	Number of items	Cronbachs alpha
Customer loyalty programs	6	0.869
Corporate image	6	0.857
Service quality	6	0.881
Product quality	6	0.862
Customer retention	7	0.793

Source: Researcher (2019).

The Cronbach alpha coefficient values in table 4.1 above are 0.7 and above confirming reliability of research instruments. This meant that the research instruments could be relied upon to produce consistent results.

#### 4.2.2 Validity tests

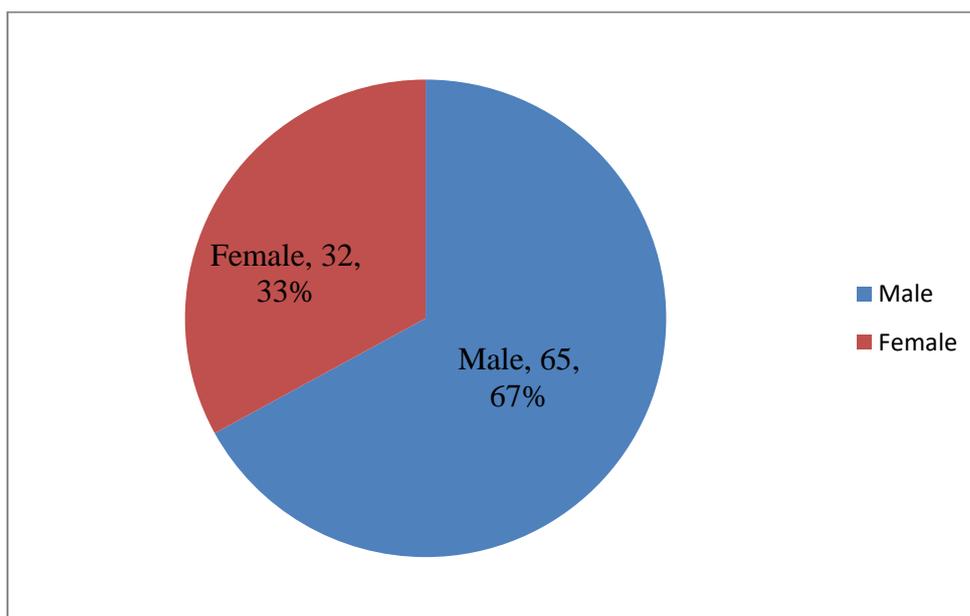
Content validity was used to check validity of research instruments. That is, all questions were checked to ensure they had adequate content and meaning as per the study variables, well stated with simple and clear statements describing the variable under study.

### 4.3 Response rate

From 105 questionnaires that were dispatched to respondents for data collection, 97 respondents returned completely filled questionnaires representing a response rate of 92.45% which is very good for generalizability of research findings to a wider population as most researchers assert. The strategies that the researcher used to achieve the high response rate (92.45%) were effective use of research assistants and by patiently waiting for respondents to dully fill the questionnaires before picking them.

### 4.4 Demographic profile of respondents

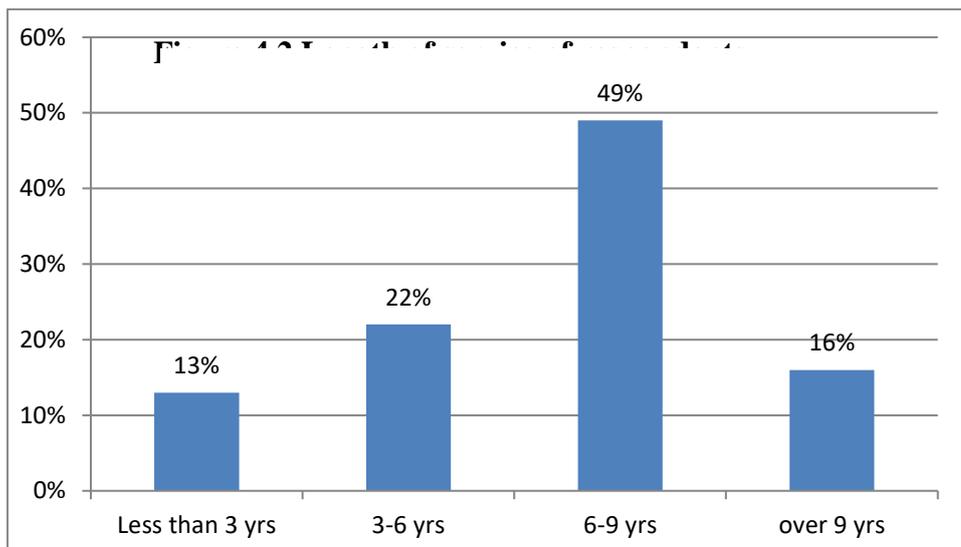
Respondents were asked about their gender, education level and length of service in banking. The results are shown in figures 4.1, 4.2, 4.3 below.



**Figure 4.1: Gender Distribution of respondents**

Source: Researcher (2019).

From figure 4.1, most respondents were male (67%) while female respondents were 33%. This shows that though the bank has employed more male employees, 33% is a fair representation of female employees, especially considering the one third gender rule in employments in Kenya.

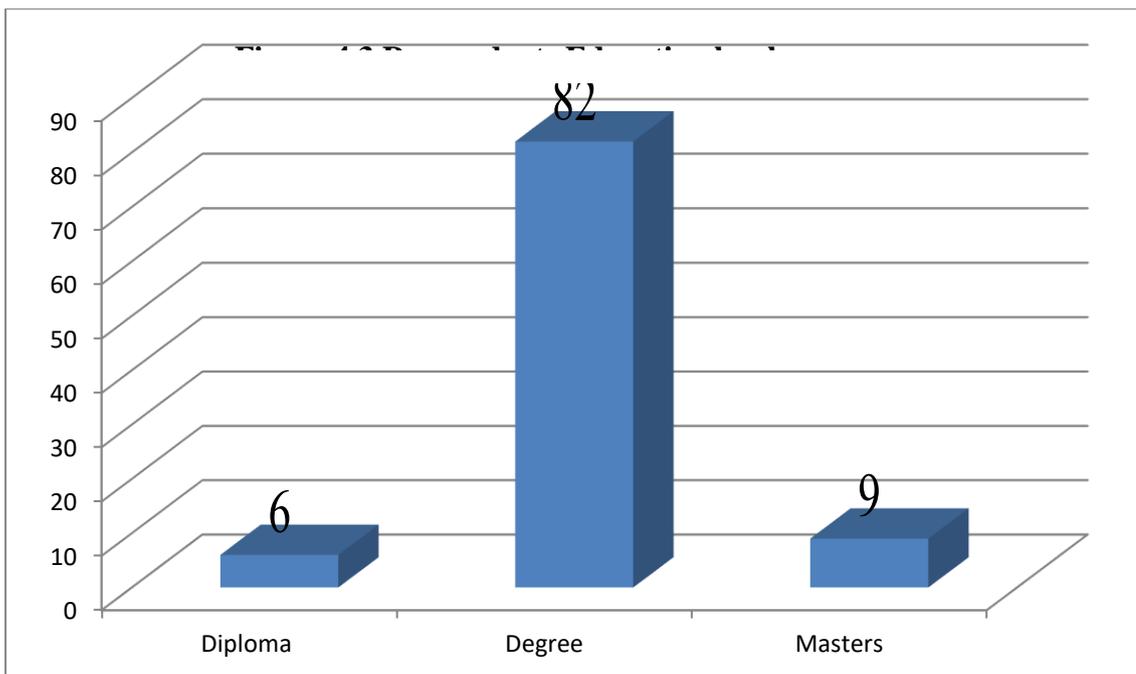


**Figure 4.2: Length of service of respondents**

Source: Researcher (2019).

From figure 4.2, regarding length of service of respondents, most respondents had served for 6-9 years (49%) implying that most respondents had valid information on what drives customer retention in the bank due to their long experience in working in the bank.

Secondly, 22% of respondents had served for 3-6 years closely followed by those who had served for over 9 years at 18%, thus had also good experience in the banking industry, thus understood key drivers of customer retention in the bank. Lastly, those who had worked for less than 3 years were the least (13%), implying this team could comprise of new employees who had joined the bank in the recent past but understood customer retention in banks due to the experience possibly gained within the short period they had been with the Bank noting that they were all customer facing employees or employees whose core function requires that they interact with customers on a daily basis.



**Figure 4.3: Respondents Education Level**

Source: Researcher (2019).

From figure 4.3, a total of 82 (84.5%) of the respondents had a degree level of education, implying that most bank employees had graduate level of education, thus having the minimum required skills to work within the Banking sector.

Secondly, 9 respondents had Masters degree of education, implying that though the Masters degree level of education was not a basic requirement for securing employment in the bank, this qualification could provide a competitive advantage for those seeking promotion to senior levels of employment.

Lastly, those with Diploma level of education were the least in number (6) representing 6%, implying that though the diploma level of education is not a competitive qualification for securing jobs in Kenya with many unemployed graduates, these respondents with Diploma level of education could be those extensive number of years

of experience within the Banking sector and thus have over the years gained the requisite experience required to work in the Bank.

#### **4.5 Descriptive statistics**

This analyzed responses based on statements measured on the Likert scale where; 1.strongly disagree, 2.disagree, 3.uncertain, 4.agree, 5.strongly agree. The results in tables are thus frequencies, their corresponding percentages in brackets, means and standard deviations plus a grand mean which is an average score on the study variable.

##### **4.5.1 Descriptive statistics; customer loyalty programs and customer retention**

This analyzed responses on whether customer loyalty programs influences customer retention in commercial banks in Kenya. The results are shown in table 4.2 with frequencies and percentages in brackets.

**Table 4.2 : Descriptive statistics: Customer Loyalty Programs**

<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>mean</b>	<b>Std.dev</b>
1. Bank has special customer recognition programs	15(15.5)	49(50.5)	15(15.5)	10(10.3)	8(8.2)	3.55	0.923
2.The Bank extend VIP benefits to its loyal customers	18(18.6)	46(47.4)	12(12.4)	11(11.3)	10(10.3)	3.53	0.862
3 The bank gives discounted rewards to its loyal customers	17(17.5)	47(48.5)	16(16.5)	8(8.2)	9(9.3)	3.57	0.915
4 Bank gives direct gifts in form of goods or cash for regular transactions	16(16.5)	46(47.4)	13(13.4)	12(12.4)	10(10.3)	3.47	0.921
5The bank gives points to be redeemed for rewards or cumulative points program	17(17.5)	50(51.7)	14(14.4)	8(8.2)	8(8.2)	3.62	0.932
6 Generally, use of customer loyalty programs positively influence customer retention in the bank	11(11.3)	55(56.7)	12(12.4)	10(10.3)	9(9.3)	3.51	0.912
<b>Valid list-wise - 97</b>							
<b>Grand mean = 3.54</b>							

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Source: Researcher (2019).

From table 4.2, most respondents agreed (50.5%) and strongly agreed (15.5%) that the bank has special customer recognition programs while 47.4% and 18.6% agreed and strongly agreed respectively that the bank extended VIP benefits to its loyal customers.

More so, 48.5% and 17.5% of respondents agreed and strongly agreed that the bank gives discounted rewards to its loyal customers, implying that discounted rewards attracts and retains customers in the bank and possibly, banks that do not practice it could lose customers.

In terms of giving gifts for some transactions, most respondents agreed (47.4%) and strongly agreed (16.5%) that the bank gives direct gifts in form of goods or cash for regular transactions, while 51.7% and 17.5% agreed and strongly agreed respectively that the bank gives points to be redeemed for rewards or cumulative points program, thus reinforcing the viable use of gifts and redeemable points in attracting and retaining customers.

Lastly, most respondents agreed (56.7%) and strongly agreed (11.3%) that generally, use of customer loyalty programs positively influence customer retention in the bank. The grand mean is 3.54 rounded off to 4 which is associated with the response on agree on the Likert scale of measurement, implying that most respondents agreed that customer loyalty programs influence customer retention in Commercial Banks.

The results are supported by Omar et al. (2009) who found that introduction of customer relationship marketing instruments by retailers has been strongly increased in recent years both in theory and practice. That is, customer loyalty programs have become a popular choice of marketing strategy by retailers who believe that loyalty programs are an important strategy and mechanism for retailers to build store traffic, increase basket size and increase frequency by creating deeper relationship with their customer.

#### **4.5.2 Descriptive statistics; corporate image and customer retention**

This analyzed responses on whether a bank's corporate image influences customer retention in commercial banks in Kenya. The results are shown in table 4.3 with frequencies and percentages in brackets.

**Table 4.3: Descriptive statistics: Corporate Image**

Statement	5	4	3	2	1	mean	Std.dev
1 The bank has high reputation compared to others	15(15.5)	48(49.5)	14(14.4)	11(11.3)	9(9.3)	3.49	0.937
2.Bank has a favorable image and clear identity compared to others	20(20.6)	44(45.4)	11(11.3)	12(12.4)	10(10.3)	3.54	0.924
3. Bank has reliable products and service thus really trusted by its customers	15(15.5)	51(52.5)	12(12.4)	10(10.3)	9(9.3)	3.55	0.856
4.Bank is distinctive and stands out unique compared to others	13(13.4)	49(50.6)	14(14.4)	11(11.3)	10(10.3)	3.45	0.917
5.Bank is stable, well known &most preferred by its customers	16(16.5)	50(51.6)	13(13.4)	10(10.3)	8(8.2)	3.58	0.894
6.Generally corporate image influences customer retention in the bank	14(14.4)	53(54.6)	12(12.4)	9(9.3)	9(9.3)	3.56	0.914
<b>Valid list-wise - 97</b>							
<b>Grand mean = 3.52</b>							

Source: Researcher (2019).

From table 4.3, most respondents agreed (49.5%) and strongly agreed (15.5%) that the bank has high reputation compared to others, implying that most respondents view their bank as having high reputation which aids them in attracting and retaining customers. This is reinforced by 45.4% and 20.6% of respondents who agreed and strongly agreed respectively that the bank has a favorable image and clear identity compared to others. Thirdly, most respondents agreed (52.5%) and strongly agreed (15.5%) that the bank has reliable products and service thus really trusted by its customers, implying that reputable bank products and services boost customer retention. This is reinforced by 50.6% and 13.4% of respondents who agreed and strongly agreed that the bank is

distinctive and stands out unique compared to others, thus will attract and win customers.

Lastly, most respondents agreed (54.6%) and strongly agreed (14.4%) that generally corporate image influences customer retention in the bank. This is supported by the grand mean 3.52 rounded off to 4 which is agree on the Likert scale of measurement, implying that a bank's corporate image plays a significant role in attracting and retaining customers.

The results are supported by Robert and Dowling (2007) assertion that a positive image tends to encourage shareholders to invest in a company, attract good staff, retain customers, increases profits and correlates with superior overall returns. Martineau (2000) further likened the image of a business firm with that of a person, thus a customer with a strong personal image will wish to identify with a business firm also having a good reputation and Bernstein (2004) further adds that a company's image means everything to its products and services.

#### **4.5.3 Descriptive statistics; service quality and customer retention**

This analyzed responses on whether a bank's customer service quality influences customer retention in commercial banks in Kenya. The results are shown in table 4.4 with frequencies and percentages in brackets.

**Table 4.4 : Descriptive statistics: Service Quality**

<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>mean</b>	<b>Std.dev</b>
1. The bank offers distinctive services to its customers	17(17.5)	45(46.4)	14(14.4)	12(12.4)	9(9.3)	3.5	0.916
2.The bank provides convenient and reliable service to its customers	16(16.5)	51(52.7)	14(14.4)	8(8.2)	8(8.2)	3.51	0.911
3.Bank customers take the shortest time possible to be served	13(13.4)	53(54.6)	13(13.4)	9(9.3)	9(9.3)	3.53	0.913
4. Bank employees are competent in handling customer complaints	15(15.5)	47(48.4)	13(13.4)	12(12.4)	10(10.3)	3.48	0.923
5.Bank employees listens are sensitive and responsive to customers' needs, expectations and complaints	21(21.6)	46(47.4)	14(14.4)	7(7.2)	9(9.3)	3.65	0.927
6.Generally, the bank has a reputation of superior service quality	15(15.5)	50(51.5)	11(11.3)	11(11.3)	10(10.3)	3.5	0.919
<b>Valid listwise - 97</b>							
<b>Grand mean = 3.52</b>							

Source: Researcher (2019).

First, from table 4.4, most respondents agreed (46.4%) and strongly agreed (17.5%) that the bank offers distinctive services to its customers, implying that distinctive customer service really attracts and retains bank customers compared to banks with poor customer service quality.

Secondly, most respondents agreed (52.7%) and strongly agreed (16.5%) that the bank provides convenient and reliable service to its customers, which is further reinforced by 54.6% and 13.4% of respondents who agreed and strongly agreed respectively that Bank customers take the shortest time possible to be served, thus showing how the bank values its customers and accords them faster service with less delay.

Further, 48.4% and 15.5% of respondents agreed and strongly agreed that employees are competent in handling customer complaints. That is, faster handling of customer complaints really wins customers hearts and trust in the bank compared to cases of delayed response in handling customer complaints which will divert customers to other banks. This is reinforced by most respondents who agreed (47.4%) and strongly agreed (21.7%) that bank employees listen, are sensitive and responsive to customers' needs, expectations and complaints.

Lastly, most respondents agreed (51.5%) and strongly agreed (15.5%) that generally, the bank has a reputation of superior service quality. This is supported by the grand mean, 3.52, rounded off to 4 which is agree on the Likert scale of measurement, implying that most respondents were of the view that service quality really influences customer retention.

The results support Munusamy *et al.*, (2010) assertion that quality of service is the difference between customers' expectations for the service encounter and the perceptions of the service received, thus, customer expectation and perception are the two key ingredients in service quality which has a bearing on customer retention in banks.

#### **4.5.4 Descriptive statistics; Product quality and customer retention**

This analyzed responses on whether a bank's product quality influences customer retention in commercial banks in Kenya. The results are shown in table 4.5 with frequencies and percentages in brackets.

**Table 4.5 : Descriptive statistics: Product Quality**

Statement	5	4	3	2	1	mean	Std.dev
1.Bank offers a wide range of cost effective products	15(15.5)	48(49.5)	14(14.4)	11(11.3)	9(9.3)	3.51	0.917
2.Bank has competitive pricing of its products compared to others	22(22.6)	44(45.4)	12(12.4)	10(10.3)	9(9.3)	3.62	0.921
3.Bank has a wide range of customer friendly products	20(20.6)	47(48.5)	11(11.3)	9(9.3)	10(10.3)	3.60	0.981
4.Bank has customized latest innovative products	17(17.4)	45(46.5)	13(13.4)	12(12.4)	10(10.3)	3.48	0.923
5.Bank offers unique and distinctive products	19(19.6)	47(48.5)	14(14.4)	9(9.3)	8(8.2)	3.62	0.915
6.Generally, quality of products offered by the bank influence customer retention in the bank	16(16.5)	49(50.5)	13(13.4)	10(10.3)	9(9.3)	3.55	0.919
<b>Valid listwise</b>	<b>97</b>						
<b>Grand mean</b>	<b>= 3.56</b>						

Source: Researcher (2019).

From table 4.5, most respondents agreed (49.5%) and strongly agreed (15.5%) that the Bank offers a wide range of cost effective products, which then attracts and retains customers. This is supported by 45.4% and 22.6% of respondents who agreed and strongly agreed respectively that the Bank has competitive pricing of its products compared to others, implying that competitive pricing of quality products can attract and retains bank customers.

More so, 48.5% and 20.6% of respondents agreed and strongly agreed respectively that the Bank has a wide range of customer friendly products, which are assumed to attract and retain its customers. Relatedly, 46.5% and 17.4% respondents agreed and strongly agreed respectively that the Bank has customized latest innovative products, thus innovative products of good quality boost customer retention in the bank.

Further, 48.5% and 19.6% of respondents agreed and strongly agreed respectively that the Bank offers unique and distinctive products. This is reinforced by 50.5% and 16.5% of respondents who agreed and strongly agreed respectively that generally, quality of products offered by the bank influence customer retention in the bank. The grand mean is 3.56 rounded to 4 which is agree on the Likert scale of measurement, implying that most respondents agreed that product quality really influences customer retention in banks.

These results are supported by Ioanna (2002) who suggested that product variation and quality could be impossible in a competitive business like the banking industry where product and service quality thrive more. This is because most financial lending institutions are providing similar products; hence, bank management tends to distinguish a commercial bank from rivals by prioritizing the quality of their product and services.

#### **4.5.5 Descriptive statistics; Customer retention**

This analyzed responses on customer retention in Bank of Africa Nairobi, Kenya. The results are shown in table 4.6 with frequencies and percentages in brackets.

**Table 4.6 : Descriptive statistics: Customer Retention in the Bank of Africa**

Statement	5	4	3	2	1	mean	Std.dev
1 Our customers are satisfied with our products and services	18(18.6)	47(48.5)	14(14.4)	11(11.3)	7(7.2)	3.53	0.913
2.Bank a substantial percentage of its loyal customers	21(21.6)	43(44.4)	12(12.4)	11(11.3)	10(10.3)	3.56	0.924
3.The bank has a low rate of turnover of customers	15(15.5)	48(49.5)	11(11.3)	10(10.3)	13(13.4)	3.43	0.926
4.The bank has a high number of long serving customers	15(15.5)	47(48.4)	13(13.4)	12(12.4)	10(10.3)	3.46	0.920
5.The bank's customer base has really grown in the recent years	16(16.5)	51(52.7)	14(14.4)	8(8.2)	8(8.2)	3.59	0.911
6Our customers see little advantage in switching to other banks	13(13.4)	54(55.7)	11(11.3)	10(10.3)	9(9.3)	3.51	0.914
7.Generally, the Bank of Africa has experienced a high retention of its bank customers for the past two years	16(16.5)	46(47.4)	13(13.4)	12(12.4)	10(10.3)	3.47	0.921
<b>Valid listwise 97</b>							
<b>Grand mean = 3.51</b>							

Source: Researcher (2019).

From table 4.6, most respondents agreed (48.5%) and strongly agreed (18.6%) that our customers are satisfied with our products and services, implying that Bank of Africa's products and services are assumed to be of high quality and thus attracts and retains its customers. Secondly, 44.4% and 21.6% of respondents agreed and strongly agreed that the Bank has a substantial percentage of its loyal customers; which is reinforced by 49.5% of respondents who agreed that the bank has a low rate of turnover of customers, implying customer retention is high.

More so, 48.4% and 15.5% of respondents agreed and strongly agreed respectively that the bank has a high number of long serving customers, while 52.7% further agreed that the bank's customer base has really grown in the recent years, and 55.7% agreed that customers see little advantage in switching to other banks implying that the bank has

grown in attracting and retaining customers possibly because of good reputation plus product and service quality.

Lastly, most respondents agreed (47.4%) and strongly agreed (16.5%) that generally, the Bank of Africa has experienced a high retention of its bank customers for the past two years, may be possibly because of good corporate image, plus offering quality products and services. This is supported by Duncan and Elliott (2002) assertion that a business customer is a major resource for any profit-making firm, thus profit making firms like commercial banks that lack customers cannot have sustainable profits if they do not invest in customer attraction and retention strategies.

#### **4.6 Inferential statistics**

First, before running inferential analysis, model assumptions of multiple regression analysis were checked and met. The accuracy of data was checked, thus, the scales of measurement were found to be valid and reliable since questions had content validity and acceptable cronbach's alpha (which is a measure of reliability) values were 0.7 and above thus met this assumption.

Secondly, the number of cases of the independent variable ought to be at least 20. This study had four independent variables, therefore, the minimum cases ought to be  $4 \times 20 = 80$ . This study sample size was 105, hence met this assumption.

Thirdly, normality test was checked and met. That is, normality test affirms that data must have a normal distribution, this was tested by the use of histograms which had a normal curve. The results (in the appendix) thus show histograms with bell-shaped normal curves indicating that data was approximately normally distributed, thus met this assumption.

More so, multicollinearity was checked using correlations between all pairs of independent variables (customer loyalty programs, corporate image, service quality and product quality). Most researchers assert that if correlation coefficient, ( $r$ ) is close to 1 or -1, then there is multicollinearity but if correlation coefficient ( $r$ ) is not above 0.9, then there is no multicollinearity In this study (table 4.7 on correlation analysis), the highest correlation coefficient between all pairs of independent variables (customer loyalty programs, corporate image, service quality and product quality) is 0.842, which is below the threshold of 0.9, thus multicollinearity assumption was checked and met.

#### **4.6.1 Correlation analysis**

Correlation analysis was computed to determine bivariate relationship between the independent variables (customer loyalty programs, corporate image, service quality and product quality) and the outcome variable (customer retention in commercial banks; a case of Bank of Africa Nairobi, Kenya). That is, correlation analysis was done using Pearson's product moment correlation coefficient in order to show that independent variables provide significant predictions which were considered a prerequisite for running regression analysis.

**Table 4.7: Correlations**

		<b>Customer Loyalty programs</b>	<b>Corporate Image</b>	<b>Service Quality</b>	<b>Product Quality</b>	<b>Customer Retention</b>
Customer Loyalty programs	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	97				
Corporate Image	Pearson Correlation	.634**	1			
	Sig. (2-tailed)	.000				
	N	97	97			
Service quality	Pearson Correlation	.643**	.654**	1		
	Sig. (2-tailed)	.000	.000			
	N	97	97	97		
Product quality	Pearson Correlation	.661**	.681**	.619**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	97	97	97	97	
Customer retention	Pearson Correlation	.683**	.771**	.842**	.763**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	97	97	97	97	97

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Researcher (2019).

#### **4.6.2 Analysis of linear regressions (Direct effects)**

This was computed to test the percentage and unit contribution of each of the four independent variables (customer loyalty programs, corporate image, service quality and product quality) on the dependent variable (customer retention in the Bank of Africa).

##### **4.6.2.1 Linear influence of customer loyalty programs on customer retention**

This tested the direct influence of customer loyalty programs on customer retention in the Bank of Africa. The results are shown in table 4.8.

**Table 4.8 : Direct influence of customer loyalty programs on customer retention**  
**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.683 <sup>a</sup>	.467	.461	.85643	.467	83.226	1	95	.000
ANOVA <sup>b</sup>									
Model		Sum of Squares	df	Mean Square	F	Sig.			
1	Regression	61.044	1	61.044	83.226	.000 <sup>a</sup>			
	Residual	69.680	95	.733					
	Total	130.723	96						
Coefficients <sup>a</sup>									
Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.		
		B	Std. Error	Beta					
1	(Constant)	1.459	.243			6.016	.000		
	Customer Loyalty programs	.635	.070	.683		9.123	.000		

a. Dependent Variable: Customer Retention  
Source: Researcher (2019).

From table 4.8, the model summary shows  $R^2 = 0.467$  which implies that 46.7% variation in customer retention in the Bank of Africa is explained by the bank's customer loyalty programs while other factors not in the study model accounts for 53.3% variation in customer retention in the Bank of Africa. Further, coefficient analysis indicates that there is a positive significant linear influence of customer loyalty programs on customer retention in the Bank of Africa ( $\beta = 0.635(0.070)$ ; at  $p < .01$ ).

The coefficient analysis results therefore imply that a single increase in effective customer loyalty programs by the bank will result to 0.635 unit improvement in customer retention in the Bank of Africa. and the linear regression model equation is;

$$y = 1.459 + 0.635X_1$$

where;

y is customer retention in the Bank of Africa.

$X_1$  is customer loyalty programs

#### 4.6.2.2 Linear influence of corporate image on customer retention

This tested the direct influence of corporate image on customer retention in the Bank of Africa. The results are shown in table 4.9. From table 4.9, the model summary shows  $R^2 = 0.594$  which implies that 59.4% variation in customer retention in the Bank of Africa is explained by the bank's corporate image while other factors not in the study model accounts for 40.6% variation in customer retention in the Bank of Africa. Further, coefficient analysis indicates that there is a positive significant linear influence of corporate image on customer retention in the Bank of Africa ( $\beta = 0.888(0.075)$ ); at  $p < .01$ .

**Table 4.9 : Direct influence of corporate image on customer retention**  
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			Sig. F Change	
					R Square Change	F Change	df1		df2
1	.771 <sup>a</sup>	.594	.590	.74765	.594	138.862	1	95	.000

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	77.621	1	77.621	138.862	.000 <sup>a</sup>
	Residual	53.103	95	.559		
	Total	130.723	96			

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.652	.255		2.554	.012
	Corporate image	.888	.075	.771	11.784	.000

a. Dependent Variable: Customer Retention  
Source: Researcher (2019).

The coefficient analysis results therefore imply that a single increase in the bank's reputation in the public image will result to 0.888 unit improvement in customer retention in the Bank of Africa.; and the linear regression model equation is;

$$y = 0.652 + 0.888X_2$$

where;

y is customer retention in the Bank of Africa.

X<sub>2</sub> is corporate image

#### 4.6.2.3 Linear influence of service quality on customer retention

This tested the direct influence of service quality on customer retention in the Bank of Africa. The results are shown in table 4.10.

**Table 4.10 : Direct influence of service quality on customer retention**

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.842 <sup>a</sup>	.709	.706	.63242	.709	231.842	1	95	.000
Coefficients <sup>a</sup>									
Model	Unstandardized Coefficients			Standardized Coefficients			t	Sig.	
	B	Std. Error	Beta	Beta	t	Sig.			
1	(Constant)	.461	.211				2.182	.032	
	Service Quality	.937	.062		.842	15.226		.000	
Coefficients <sup>a</sup>									
Model	Unstandardized Coefficients			Standardized Coefficients			t	Sig.	
	B	Std. Error	Beta	Beta	t	Sig.			
1	(Constant)	.461	.211				2.182	.032	
	Service Quality	.937	.062		.842	15.226		.000	

a. Dependent Variable: Customer Retention

Source: Researcher (2019).

From table 4.10, the model summary shows  $R^2 = 0.709$  which implies that 70.9% variation in customer retention in the Bank of Africa is explained by the bank's service quality while other factors not in the study model accounts for 29.1% variation in customer retention in the Bank of Africa. Further, coefficient analysis indicates that there is a positive significant linear influence of service quality on customer retention in the Bank of Africa ( $\beta = 0.937(0.062)$ ); at  $p < .01$ . The coefficient analysis results

therefore imply that a single increase in service quality by the bank will result to 0.937 unit improvement in customer retention in the Bank of Africa.; and the linear regression model equation is;

$$y = 0.461 + 0.937X_3$$

where;

y is customer retention in the Bank of Africa.

X<sub>3</sub> is service quality

#### 4.6.2.3 Linear influence of product quality on customer retention

This tested the direct influence of product quality on customer retention in the Bank of Africa. The results are shown in table 4.11

**Table 4. 11 : Direct influence of product quality on customer retention**  
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.763 <sup>a</sup>	.582	.577	.75882	.582	132.025	1	95	.000
ANOVA <sup>b</sup>									
Model		Sum of Squares	df	Mean Square	F	Sig.			
1	Regression	76.021	1	76.021	132.025	.000 <sup>a</sup>			
	Residual	54.702	95	.576					
	Total	130.723	96						
Coefficients <sup>a</sup>									
Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.		
		B	Std. Error	Beta					
1	(Constant)	.960	.236			4.066	.000		
	Product Quality	.796	.069	.763		11.490	.000		

a. Dependent Variable: Customer Retention

Source: Researcher (2019).

From table 4.11, the model summary shows  $R^2 = 0.582$  which implies that 58.2% variation in customer retention in the Bank of Africa is explained by the bank products quality while other factors not in the study model accounts for 41.8% variation in customer retention in the Bank of Africa. Further, coefficient analysis indicates that

there is a positive significant linear influence of product quality on customer retention in the Bank of Africa ( $\beta = 0.796(0.069)$ ; at  $p < .01$ ).

The coefficient analysis results therefore imply that a single increase in the bank products quality will result to 0.796 unit improvement in customer retention in the Bank of Africa.; and the linear regression model equation is;

$$y = 0.960 + 0.796X_4$$

where;

y is customer retention in the Bank of Africa.

$X_4$  is product quality

#### **4.6.3 Multiple Regression Analysis**

The results in table 4.12 shows an R square of 0.877, thus we infer that the study model explains 87.7% of the variations in customer retention in the Bank of Africa, while other factors not in this study model accounts for 12.3%, thus, it is a good model.

ANOVA results in table 4.12 also shows that the F-statistical value is significant ( $F=64.237$ , *significant at  $p < .001$* ), thus confirming the fitness of the model. That is, from the study model, the significant F value show that the four independent variables (customer loyalty programs, corporate image, service and product quality) are indeed different from each other and that they affect the dependent variable (customer retention in the Bank of Africa.) in varied ways.

**Table 4.12 : Multiple regression results**

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.858 <sup>a</sup>	.736	.725	.61206	.736	64.237	4	92	.000	
ANOVA <sup>b</sup>										
Model	Sum of Squares		df	Mean Square	F	Sig.				
1	Regression		96.258	4	24.065	64.237	.000 <sup>a</sup>			
	Residual		34.465	92	.375					
	Total		130.723	96						

a. Predictors: (Constant), Product Quality, Customer Loyalty programs, Corporate Image, Service Quality

b. Dependent Variable: Customer Retention

Source: Researcher (2019).

Further, from the values of unstandardized regression coefficients with standard errors in parenthesis in table 4.13, all the independent variables (customer loyalty programs;  $\beta = 0.211$  (0.081) at  $p < 0.05$ ; corporate image;  $\beta = 0.459$  (0.095) at  $p < 0.05$ ; service quality;  $\beta = 0.504$  (0.171) at  $p < 0.05$ , product quality;  $\beta = 0.232$  (0.097) at  $p < 0.05$ ; were significant predictors of customer retention in the Bank of Africa (dependent variable).

Further, from multiple regression analysis (table 4.13), service quality was the highest contributor in the multiple regression model (0.504), followed by corporate image (0.459), meaning that for effective customer retention in the Bank of Africa Nairobi, service quality and corporate image are the strongest predictors of customer retention, thus must be given the highest priority. Product quality was third (0.232), while customer loyalty programs was the least (0.211) significant predictor of the dependent variable (customer retention in the Bank of Africa Nairobi), implying that though customer loyalty programs had lower correlation coefficient, rolling out of customer

loyalty programs still significantly determine customer retention in the Bank of Africa, thus cannot be neglected.

Therefore, the final multiple regression equation for overall significant multiple influence of the study's independent variables (customer loyalty programs, corporate image, service and product quality) on customer retention in the Bank of Africa (dependent variable) is;

$$Y = 0.555 + 0.211X_1 + 0.459X_2 + 0.504X_3 + 0.232X_4$$

Where;

y= customer retention in the Bank of Africa

X<sub>1</sub>= customer loyalty programs

X<sub>2</sub>= corporate image

X<sub>3</sub>= service quality

X<sub>4</sub>= product quality

**Table 4.13 : Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	.555	.141		3.928	.000
	Customer Loyalty programs	.211	.081	.201	2.381	.019
	Corporate Image	.459	.095	.398	4.837	.000
	Service Quality	.504	.171	.453	2.956	.004
	Product Quality	.232	.097	.222	2.401	.018

a. Dependent Variable: Customer Retention in the Bank of Africa

Source: Researcher (2019).

#### 4.6.4 Hypothesis testing

The study tested a total of four null hypotheses and the decision of accepting or rejecting each null hypothesis is explained as follows; The decision is to either accept the null hypothesis (**H<sub>0</sub>**) if its corresponding unstandardized regression coefficient  $\beta = 0$  and not significant at 5% ( $p > 0.05$ ) from the multiple regression results; or reject the null hypothesis (**H<sub>0</sub>**) and accept the alternative hypothesis (**H<sub>A</sub>**) if its corresponding unstandardized regression coefficient  $\beta \neq 0$  and significant at 5% ( $p < 0.05$ ).

(Null Hypothesis) **H<sub>01</sub>**: Customer loyalty programs do not significantly influence customer retention in Bank of Africa in Nairobi, Kenya.

(Alternative Hypothesis) **H<sub>A</sub>**: Customer loyalty programs significantly influence customer retention in Bank of Africa in Nairobi, Kenya.

Results; customer loyalty programs;  $\beta = 0.211$  (0.081) *significant at  $p < 0.05$* .

**Verdict**; we reject the null hypothesis (**H<sub>01</sub>**) and accept the alternative hypothesis (**H<sub>A</sub>**) that customer loyalty programs significantly influence customer retention in Bank of Africa in Nairobi, Kenya.

(Null Hypothesis) **H<sub>02</sub>**: corporate image does not significantly influence customer retention in Bank of Africa in Nairobi, Kenya.

(Alternative Hypothesis) **H<sub>A</sub>**: Corporate image significantly influence customer retention in Bank of Africa in Nairobi, Kenya.

Results; corporate image;  $\beta = 0.459$  (0.095) *significant at  $p < 0.05$* .

**Verdict;** we reject the null hypothesis (**H<sub>02</sub>**) and accept the alternative hypothesis (**H<sub>A</sub>**) that corporate image significantly influence customer retention in Bank of Africa in Nairobi, Kenya.

(Null Hypothesis) H<sub>03</sub>: service quality does not significantly influence customer retention in Bank of Africa in Nairobi, Kenya.

(Alternative Hypothesis) H<sub>A</sub>: service quality significantly influences customer retention in Bank of Africa in Nairobi, Kenya.

Results; service quality;  $\beta = 0.504$  (0.171) *significant at  $p < 0.05$ .*

**Verdict;** we reject the null hypothesis (**H<sub>03</sub>**) and accept the alternative hypothesis (**H<sub>A4</sub>**) that service quality significantly influence customer retention in Bank of Africa in Nairobi, Kenya.

(Null Hypothesis) H<sub>04</sub>: product quality does not significantly influence customer retention in Bank of Africa in Nairobi, Kenya.

(Alternative Hypothesis) H<sub>A</sub>: product quality significantly influences customer retention in Bank of Africa in Nairobi, Kenya.

Results; product quality;  $\beta = 0.232$  (0.097) *significant at  $p < 0.05$ .*

**Verdict;** we reject the null hypothesis (**H<sub>04</sub>**) and accept the alternative hypothesis (**H<sub>A4</sub>**) that product quality significantly influences customer retention in Bank of Africa in Nairobi, Kenya.

## CHAPTER FIVE: SUMMARY OF FINDINGS, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

### 5.1 Introduction

This chapter concludes the study by presenting summary of study findings, conclusions, recommendations, and suggested areas for further research.

### 5.2 Summary of findings

The general objective of the study was to investigate strategies of customer retention among commercial banks; a case of Bank of Africa Nairobi, Kenya. The study tested a total of four hypotheses; **H<sub>01</sub>**: Customer loyalty programs do not significantly influence customer retention in commercial banks in Kenya; **H<sub>02</sub>**: Corporate image does not significantly influence customer retention in commercial banks in Kenya; **H<sub>03</sub>**: Service Quality does not significantly influence customer retention in commercial banks in Kenya; **H<sub>04</sub>**: Product Quality does not significantly influence customer retention in commercial banks in Kenya.

Research **hypothesis one (H<sub>01</sub>)** stated that customer loyalty programs do not significantly influence customer retention in commercial banks in Kenya. Results from multiple regression analysis showed that customer loyalty programs significantly influence customer retention in commercial banks in Kenya;  $\beta = 0.211$  (0.081) at  $p < 0.05$ . The results therefore imply that a single increase in effective customer loyalty programs by the bank will result to 0.211 unit improvement in customer retention by the commercial bank.

Further from descriptive statistics, most respondents agreed (56.7%) and strongly agreed (11.3%) that generally, use of customer loyalty programs positively influence customer retention in the bank. The grand mean is 3.54 rounded off to 4 which is agree

on the Likert scale of measurement, implying that most respondents agreed that customer loyalty programs influence customer retention in Commercial Banks.

The results are supported by Omar et al. (2009) who found that introduction of customer relationship marketing instruments by retailers has been strongly increased in recent years both in theory and practice. That is, customer loyalty programs have become a popular choice of marketing strategy by retailers who believe that loyalty programs are an important strategy and mechanism for retailers to build store traffic, increase basket size and increase frequency by creating deeper relationship with their customer.

Research **hypothesis two (H<sub>02</sub>)** stated that corporate image does not significantly influence customer retention in commercial banks in Kenya. Results from multiple regression analysis showed that corporate image significantly influence customer retention in commercial banks in Kenya;  $\beta = 0.459$  (0.095) at  $p < 0.05$ . The results therefore imply that a single increase in reputable public image by the bank will result to 0.459 unit improvement in customer retention by the commercial bank.

Further from descriptive statistics, most respondents agreed (54.6%) and strongly agreed (14.4%) that generally corporate image influences customer retention in the bank. This is supported by the grand mean 3.52 rounded off to 4 which is agree on the Likert scale of measurement, implying that a bank's corporate image plays a significant role in attracting and retaining customers.

The results are supported by Robert and Dowling (2007) assertion that a positive corporate image tends to encourage shareholders to invest in a company, attract good staff, retain customers, increases profits and correlates with superior overall returns. Martineau (2000) further likened the image of a business firm with that of a person, thus a customer with a strong personal image will wish to identify with a business firm

also having a good reputation and Bernstein (2004) further adds that a company's image means everything to its products and services.

Research **hypothesis three (H<sub>03</sub>)** stated that service quality does not significantly influence customer retention in commercial banks in Kenya. Results from multiple regression analysis showed that service quality significantly influence customer retention in commercial banks in Kenya;  $\beta = 0.504$  (0.171) at  $p < 0.05$ . The results therefore imply that a single increase in customer service quality by the bank will result to 0.504 unit improvement in customer retention by the commercial bank.

Further from descriptive statistics, most respondents agreed (51.6%) and strongly agreed (15.5%) that generally, the bank has a reputation of superior service quality. This is supported by the grand mean, 3.49, rounded off to 4 which is agree on the Likert scale of measurement, implying that most respondents were of the view that service quality really influences customer retention.

The results support Munusamy *et al.*, (2010) assertion that quality of service is the difference between customers' expectations for the service encounter and the perceptions of the service received, thus, customer expectation and perception are the two key ingredients in service quality which has a bearing on customer retention in banks.

Lastly, research **hypothesis four (H<sub>04</sub>)** stated that product quality does not significantly influence customer retention in commercial banks in Kenya. Results from multiple regression analysis showed that product quality significantly influence customer retention in commercial banks in Kenya;  $\beta = 0.232$  (0.097) at  $p < 0.05$ . The results therefore imply that a single increase in niche bank products quality will result to 0.232 unit improvement in customer retention by the commercial banks.

Further from descriptive statistics, 48.5% and 19.6% of respondents agreed and strongly agreed respectively that the Bank offers unique and distinctive products. This is reinforced by 50.5% and 16.5% of respondents who agreed and strongly agreed respectively that generally, quality of products offered by the bank influence customer retention in the bank. The grand mean is 3.56 rounded to 4 which is agree on the Likert scale of measurement, implying that most respondents agreed that product quality really influences customer retention in banks.

These results are supported by Ioanna (2002) who suggested that product variation and quality could be impossible in a competitive business like the banking industry where product and service quality thrives more. This is because most financial lending institutions are providing similar products; hence, bank management tends to distinguish a commercial bank from rivals by prioritizing the quality of their product and services.

### **5.3 Discussion of study findings.**

The **first specific objective** of the study was to determine influence of customer loyalty programs on customer retention in commercial banks in Kenya. Results from multiple regression analysis show that customer loyalty programs significantly influence customer retention in commercial banks;  $\beta = 0.211$  (0.081) at  $p < 0.05$ . The results therefore imply that a single increase in effective customer loyalty programs by the bank will result to 0.211 unit improvement in customer retention by the commercial bank.

The results are supported by Chibaya (2016) who found that loyalty programs in South Africa arose as a crucial tool for customer retention and building sustainable customer loyalty through enhanced relationships. Many companies are offering loyalty cards to

customers. The South African Loyalty and Rewards Survey identified a total of 101 rewards programs in South Africa (Chibaya, 2016). This figure has experienced significant growth over the last two decades; however the last eight years have seen the largest annual growth of loyalty programs and their recommended use in financial institutions like commercial banks as a way of attracting and retaining customers.

Further, Omar et al. (2009) found that introduction of customer relationship marketing instruments by retailers has been strongly increased in recent years both in theory and practice. That is, customer loyalty programs have become a popular choice of marketing strategy by retailers who believe that loyalty programs are an important strategy and mechanism for retailers to build store traffic, increase basket size and increase frequency by creating deeper relationship with their customer. However, some members in the marketing industry have begun to question the effectiveness of loyalty programs in obtaining customers' support and loyalty especially in as far as customer retention in commercial banks is concerned.

Karim (2011) also did a study on UK supermarkets with a view of ascertaining the role of loyalty programs on customer retention. The study revealed that loyalty programs enhanced customer loyalty directly by offering rewards which acted as incentives to purchase regularly at any supermarket and thus recommended similar study to be done in commercial banks so as to compare results which has been addressed in this study.

The second specific objective of the study was to examine the influence of corporate image on customer retention in commercial banks in Kenya. Results from multiple regression analysis shows that corporate image significantly influence customer retention in commercial banks;  $\beta = 0.459$  (0.095) at  $p < 0.05$ . The results therefore imply that a single increase in reputable public image by the bank will result to 0.459 unit improvement in customer retention by the commercial bank.

The results are supported by Chun and Davies (2006), Zins (2000), Kandampully and Suhartanto (2000) whose studies identified a group of leaders of successful organizations who enjoyed a unique and sustained competitive advantage by showing greater concern for customers which was achieved by focusing on building strong relationships. Thus, good corporate image and perceived good relationship are important variables that help customers understand process, recall and recognize information because the customers benefit in other ways from long-term associations with the organization.

The perceived relationship benefits add to the perceived value of the product because the relationship is strengthened when customers perceive benefits beyond their satisfaction with the core product. Also, relational benefits have an indirect effect on customer loyalty via perceived value which positively influences loyalty (Kandampully & Suhartanto, 2000).

Further, Fry (2002) found out that brand image has a direct effect on loyalty while Chun (2002) found, in contrast, that brand image has an indirect influence on loyalty via customer satisfaction, while Davies *et al.* (2003) suggested that brand image correlates with customer satisfaction, hence, brand image has been recognized as an important antecedent of customer satisfaction. Hence, a positive bank brand image will tend to generate high customer satisfaction in a commercial bank and improve customer retention.

The third specific objective of the study was to determine the influence of service quality on customer retention in commercial banks in Kenya. Results from multiple regression analysis shows that service quality significantly influence customer retention in commercial banks  $\beta = 0.504$  (0.171) at  $p < 0.05$ . The results therefore imply that a

single increase in customer service quality by the bank will result to a 0.504 unit improvement in customer retention by the commercial bank.

The results are supported by Munusamy *et al.*, (2010) assertion that quality of service is the difference between customers' expectations for the service encounter and the perceptions of the service received, thus, customer expectation and perception are the two key ingredients in service quality which can be used to attract and retain customers in a commercial bank.

More so, Wand and Wang (2006) conducted their study to gain a better understanding of how internet affects service quality in the banking sector by use of descriptive and qualitative data on multiple case studies and the results pointed to an assertion that bank service influences bank customer retention, that is, accessibility of bank service, such as convenience of ATM services could definitely influence customer retention in commercial banks.

Chatura and Andy (2003) study in England revealed that conceptualized study variables (service quality and price) significantly influenced retaining of customers in the telephone industry. The study further revealed that price the major reason for switching but when the quality of service is compromised it will act as trigger for switching to other firms in both telephone and banking industry (Chatura & Andy, 2003).

Similarly, Mbinile (2010) studied on quality of service in banks in Tanzania and found that 70% of customers agreed that bank branches performed promised services dependably and accurately, 12% did not believe bank branches perform promised services dependably, and 18% were uncertain. Another factor investigated was Employees courtesy where the study revealed that, 70% agreed that bank branch employees could convey confidence and trust customers; 12% disagree and 18% were uncertain.

Lastly, 53% agreed that bank branches were giving customers individual attention and bank branches operated in convenient hours to the customers; moreover employees of bank branches were willing to be flexible to accommodate customer's schedules. While findings by Mbinile (2010) indicates that there is good quality of services in Tanzania banking sector, yet the findings do not tell if the qualities observed by customers influence their retention. However, these study findings have answered Mbinile (2010) study by confirming that service quality significantly influences customer retention in commercial banks.

Lastly, the fourth specific objective of the study was to evaluate the influence of product quality on customer retention in commercial banks in Kenya. Results from multiple regression analysis showed that product quality significantly influence customer retention in commercial banks;  $\beta = 0.232$  (0.097) at  $p < 0.05$ . The results therefore imply that a single increase in niche bank products quality will result to 0.232 unit improvement in customer retention by the commercial banks.

The results are supported by attribution theory which explains customer responses to service and product failures (Blodgett *et al.*, 1997). Attribution theory thus asserts that generally, discontented consumers who contemplate that a firm could be having external problems will really disassociate with that firm and condemn it than some similarly discontented customers who will remain attached to the firm with a hope that things might change.

In this regard, customers' negative attitude about a certain business product can develop negative behavior towards it and discourage potential new customers (Swanson & Kelley, 2001). Therefore, commercial banks' customer responses to bank product and service failures will make potential customers develop certain attitudes and behavior

towards certain banks plus their products and then form a basis for their switching from one bank to another which definitely affects customer retention in affected banks.

#### **5.4 Conclusion**

The study concludes that customer loyalty programs being rolled out by many commercial banks can significantly attract and retain loyal customers.

Secondly, a commercial bank's corporate image determines its reputation in the public eyes, thus banks with a positive reputation can really attract and retain a number of bank customers.

Thirdly, customer service quality as perceived in the lens of bank customers can significantly attract and retain a strong customer base for the commercial bank that treats customer as king.

Fourthly, banks offering a wide variety of quality products can significantly boost customer retention if utilized consistently.

#### **5.5 Recommendations**

First, commercial banks should articulately utilize viable customer loyalty programs to engage loyal customers so as to attract and retain a strong customer base.

Secondly, commercial banks should carefully guard their public image to avoid huge reputational costs used to redeem and maintain impaired corporate image that consequently affects customer attraction and retention.

Thirdly, commercial banks should heavily invest in customer service quality to minimize customer switching behavior which has a bearing on customer retention.

Lastly, commercial banks should only invest in quality bank products that win and sustainably retain many bank customers.

### **5.6 Area for further research**

First, another study can be done on bank customers to assess the perception of service/product quality and corporate image in the eyes of bank customers.

Secondly, another study can be done using time series data to assess the sustainable use of customer loyalty programs, service/product quality to attract and retain a strong customer base.

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## APPENDICES

### Appendix 1: Letter of Transmittal of Data Collection Instrument

Brenda Simba,  
Africa Nazarene University,  
Nairobi Campus.

#### **RE: REQUEST TO PARTICIPATE IN A STUDY**

My name is Brenda Atieno Simba a student from Africa Nazarene University carrying out a survey entitled ‘**THE ROLE OF CUSTOMER RETENTION STRATEGIES ON CUSTOMER RETENTION AMONG COMMERCIAL BANKS IN KENYA: A CASE OF BANK OF AFRICA, KENYA**’. This is in partial fulfillment for the requirement for the award of degree of Master in Business Administration. It is in this regard that I am kindly requesting you to read and fill this questionnaire. Kindly give answers to the best of your knowledge and be informed that there is no right or wrong information; further, answers you give are purely confidential.

Yours Faithfully,

Brenda Atieno Simba

## Appendix II : Research Questionnaire

### PART A: Demographic Data

1. Gender

0) female                      1. Male

2. .Length of Service in the bank

Years	Less than 3yrs	3-6 yrs	6-9 yrs	Over9yrs
Tick				

3. Education level

Qualification	Certificate	Diploma	Degree	Masters	PhD
Tick					

4. What is your position in the Bank of Africa?

Title	Head of Busines s center	Branch manager	Customer service manager	Relationship manager	Customer service officer	Relationship officers	Teller
Tick							

## **PART B: Determinants of customer retention in the Bank of Africa, Kenya**

### **Customer Loyalty Programs Questionnaire**

State your level of agreement relating to influence of customer loyalty programs on retention of customers in the Bank of Africa Use the ratings criteria below.

1. Strongly Disagree 2. Disagree 3.Uncertain 4. Agree 5.Strongly Agree

<b>Statement</b>	5	4	3	2	1
1. Bank has special customer recognition programs					
2.The Bank extend VIP benefits to its loyal customers					
3 The bank gives discounted rewards to its loyal customers					
4 Bank gives direct gifts in form of goods or cash for regular transactions					
5The bank gives points to be redeemed for rewards or cumulative points program					
6 Generally, use of customer loyalty programs positively influence customer retention in the bank					

### Corporate Image Questionnaire

State your level of agreement on how corporate image affects customer retention in the Bank of Africa. Use the ratings criteria below.

1Strongly Disagree, 2Disagree 3Uncertain 4Agree 5strongly agree

<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1 The bank has high reputation compared to others					
2.Bank has a favorable image and clear identity compared to others					
3. Bank has reliable products and service thus really trusted by its customers					
4.Bank is distinctive and stands out unique compared to others					
5.Bank is stable, well known &most preferred by its customers					
6.Generally corporate image influences customer retention in the bank					

### Service Quality Questionnaire

State your level of agreement on the influence of service quality on customer retention in the Bank of Africa Use the ratings criteria below.

1.strongly disagree, 2.Disagree, 3 uncertain 4.agree 5strongly agree

Statement	5	4	3	2	1
1. The bank offers distinctive services to its customers					
2.The bank provides convenient and reliable service to its customers					
3.Bank customers take the shortest time possible to be served					
4. Bank employees are competent in handling customer complaints					
5.Bank employees listens are sensitive and responsive to customers' needs, expectations and complaints					
6.Generally, the bank has a reputation of superior service quality					

## Product Quality Questionnaire

State your level of agreement relating to influence of product quality on customer retention in the Bank of Africa Use the ratings criteria below.

5.Strongly agree 4.Agree 3.Uncertain 2.Disagree 1.Strongly disagree

Statement	5	4	3	2	1
1.Bank offers a wide range of cost effective products					
2.Bank has competitive pricing of its products compared to others					
3.Bank has a wide range of customer friendly products					
4.Bank has customized latest innovative products					
5.Bank offers unique and distinctive products					
6.Generally, quality of products offered by the bank influence customer retention in the bank					

### **PART C: Customer Retention in the Bank of Africa**

State your level of agreement relating to customer retention in the Bank of Africa. Use the ratings criteria below.

1. Strongly Disagree 2. Disagree 3. Uncertain 4. agree 5. Strongly agree

<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1 Our customers are satisfied with our products and services					
2. Bank a substantial percentage of its loyal customers					
3. The bank has a low rate of turnover of customers					
4. The bank has a high number of long serving customers					
5. The bank's customer base has really grown in the recent years					
6 Our customers see little advantage in switching to other banks					
7. Generally, the Bank of Africa has experienced a high retention of its bank customers for the past two years					

### Appendix III: ANU Research Authorization Letter



**AFRICA NAZARENE**  
UNIVERSITY

4<sup>th</sup>, October 2019

E-mail: [researchwriting.mba.anu@gmail.com](mailto:researchwriting.mba.anu@gmail.com)

Tel. 0202711213

Our Ref: 13S03EMBA003

The Director,  
National Commission for Science,  
Technology and Innovation (NACOSTI),  
P. O. Box 30623, 00100  
Nairobi, Kenya

Dear Sir/Madam:

**RE: RESEARCH AUTHORIZATION FOR: MS: BRENDA ATIENO SIMBA**

Ms. Simba is a postgraduate student of Africa Nazarene University in the Master of Business Administration (MBA) program.

In order to complete her program, Ms. Simba is conducting a research entitled: **“Strategies of Customer Retention among Commercial Banks in Kenya: A Case of Bank of Africa, Kenya”**

Any assistance offered to her will be highly appreciated.

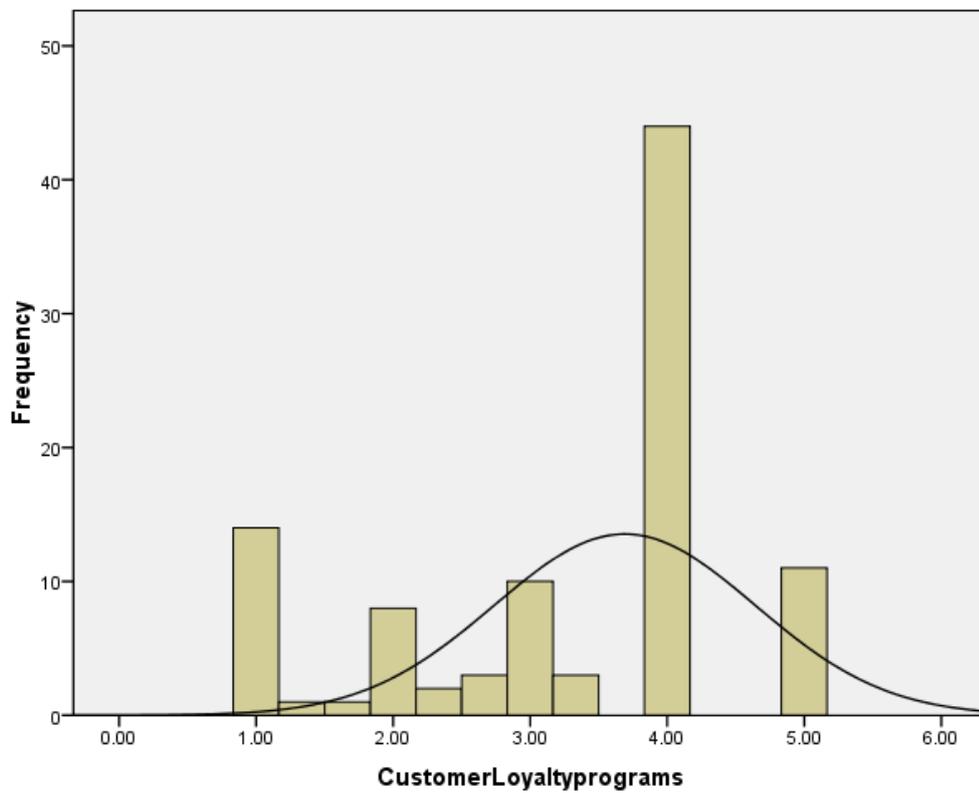
Yours Faithfully,

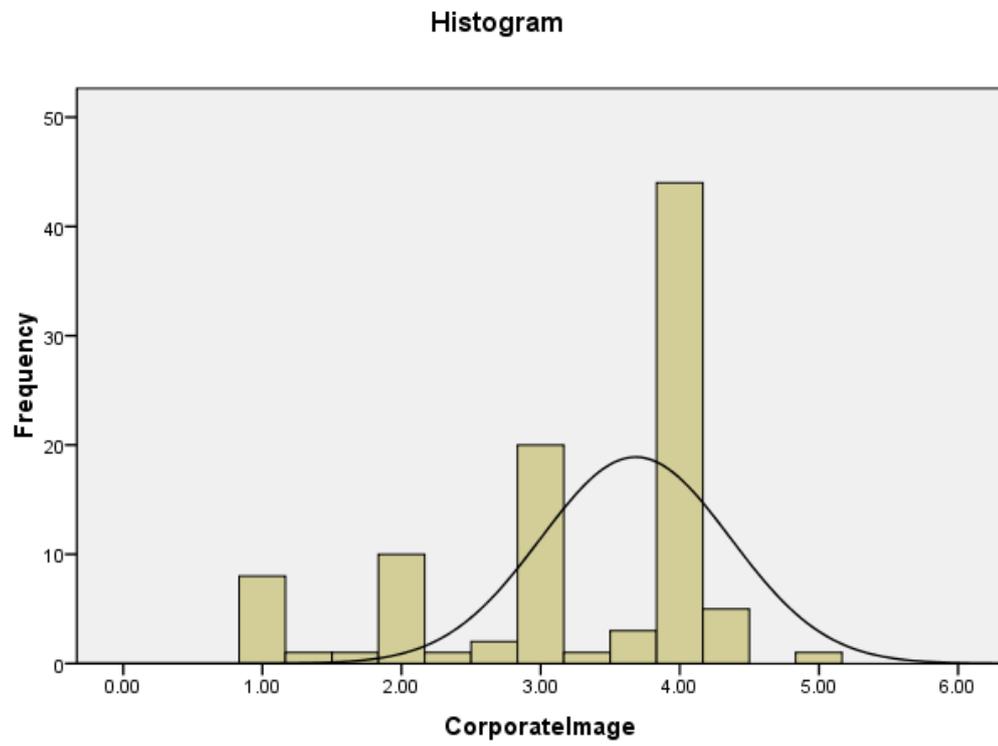


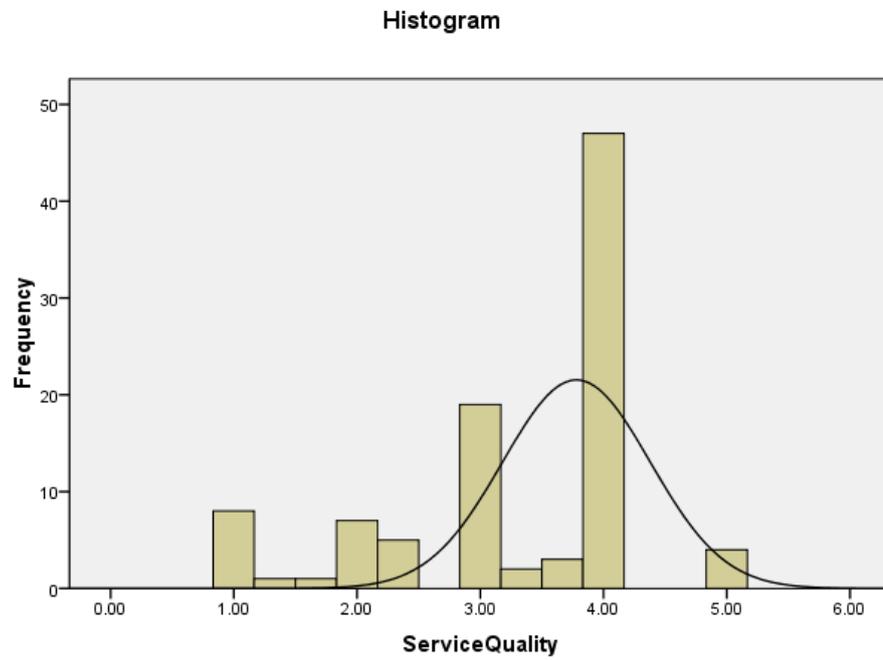
**PROF. ORPHA ONG'ITI,**  
**PRINCIPAL: NAIROBI CBD CAMPUS.**

## Appendix IV: Normality Tests

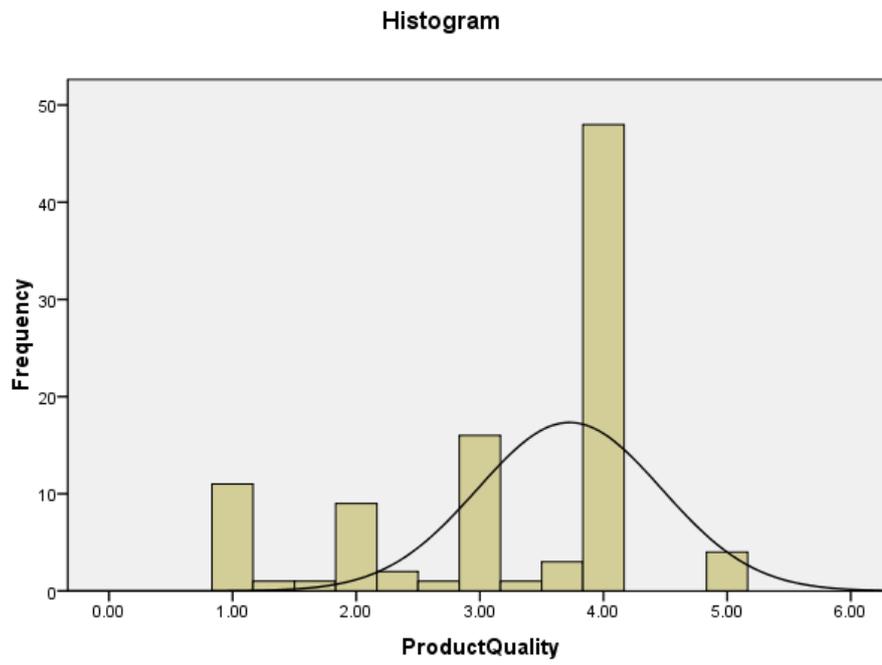
### Normality test: Customer loyalty programs

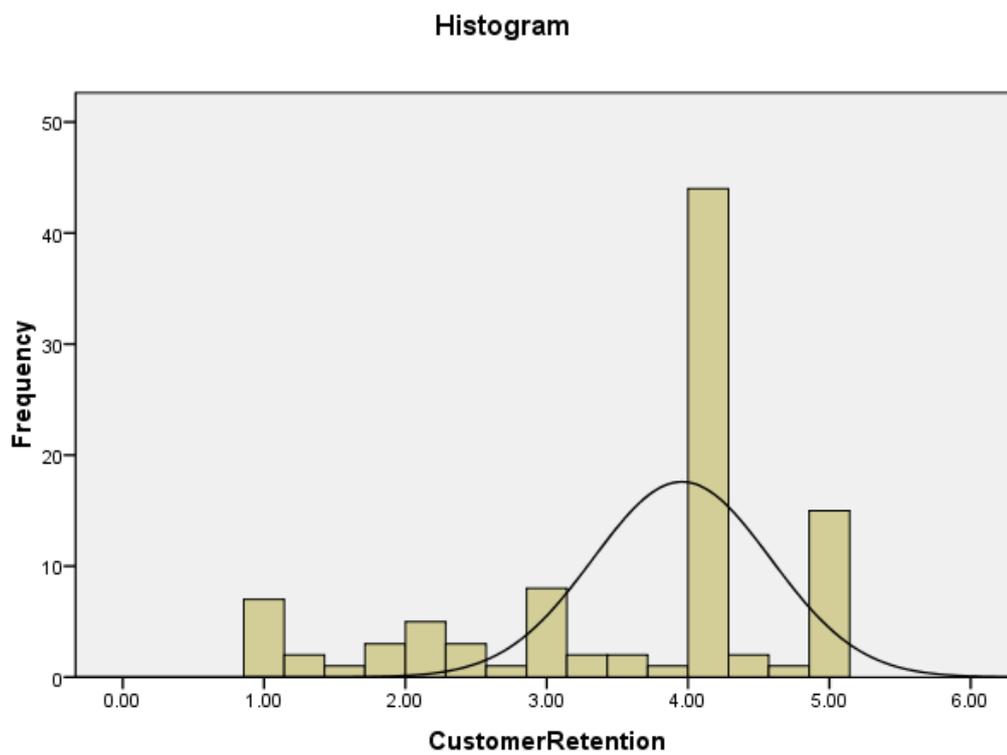


**Normality test: Corporate image**

**Normality test: Service quality**

## Normality Test; Product quality



**Normality test: Customer retention**

## **Appendix V: Branches and Employee Category in the Bank of Africa, Kenya**

### **BANK OF AFRICA DETAILS**

#### **List of Branches in Nairobi**

##### **1. Nairobi branch**

- 1 Branch Manager
- 2 customer service managers ( 1 customer service manager with a deputy )
- 2 Relationship Officers
- 1 Customer service officer
- 4 tellers

##### **2. Kenyatta Avenue Branch**

- 1 Branch Manager
- 2 customer service managers ( 1 customer service manager with a deputy )
- 2 Relationship Officers
- 1 Customer service officer
- 3 tellers

##### **3. River Road Branch**

- 1 Branch Manager
- 2 customer service managers ( 1 customer service manager with a deputy )
- 2 Relationship Officers
- 4 tellers

#### **4. Gigiri Branch**

- 1 Branch Manager
- 2 customer service managers ( 1 customer service manager with a deputy )
- 1 Relationship Officer
- 2 tellers

#### **5. Ngong Road Branch**

- 1 Branch Manager
- 2 customer service managers ( 1 customer service manager with a deputy )
- 1 Relationship Officer
- 1 Customer service officer
- 3 tellers

#### **6. Kitengela Branch**

- 1 Branch Manager
- 2 customer service managers ( 1 customer service manager with a deputy )
- 2 Relationship Officers
- 3 tellers

#### **7. Rongai Branch**

- 1 Branch Manager
- 2 customer service managers ( 1 customer service manager with a deputy )
- 2 Relationship Officers
- 3 tellers

**8. Uhuru Highway Branch**

- 1 Branch Manager
- 2 customer service managers ( 1 customer service manager with a deputy )
- 2 Relationship Officers
- 1 Customer service officer
- 3 tellers

**9. Sameer Retail Branch**

- 1 Branch Manager
- 1 customer service managers
- 2 Relationship Officers
- 3 tellers

**10. Nairobi Business Center**

- 1 Head of Business Center
- 1 customer service managers
- 8 Relationship Managers
- 2 tellers

**11. Westlands Branch**

- 1 Branch Manager
- 2 customer service managers ( 1 customer service manager with a deputy )
- 2 Relationship Officers
- 1 Customer service officer
- 3 tellers

**12. Ruaraka Branch**

- 1 Branch Manager
- 2 customer service managers ( 1 customer service manager with a deputy )
- 2 Relationship Officers
- 3 tellers

**13. Upper Hill Branch**

- 1 Branch Manager
- 2 customer service managers ( 1 customer service manager with a deputy )
- 1 Relationship Officers
- 2 tellers

**14. Embakasi Branch**

- 1 Branch Manager
- 2 customer service managers ( 1 customer service manager with a deputy )
- 2 Relationship Officers
- 4 tellers

**15. Greenspan Branch**

- 1 Branch Manager
- 2 customer service managers ( 1 customer service manager with a deputy )
- 2 Relationship Officers
- 3 tellers

**16. LungaLunga Branch**

- 1 Branch Manager
- 2 customer service managers ( 1 customer service manager with a deputy )
- 1 Relationship Officers
- 3 tellers

**17. Galleria Branch**

- 1 Branch Manager
- 2 customer service managers ( 1 customer service manager with a deputy )
- 2 Relationship Officers
- 1 customer service officer
- 3 tellers

### Appendix VI: Nacosti Research Authorization Letter

 REPUBLIC OF KENYA	 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
Ref No: 334574	Date of Issue: 24/October/2019
<b>RESEARCH LICENSE</b>	
	
<p>This is to Certify that Ms. BRENDA SIMBA of Africa Nazarene University, has been licensed to conduct research in Kericho, Kiambu, Kisii, Kisumu, Meru, Mombasa, Nairobi, Nakuru, Narok on the topic: STRATEGIES OF CUSTOMER RETENTION AMONG COMMERCIAL BANKS IN KENYA: A CASE OF BANK OF AFRICA KENYA for the period ending : 24/October/2020.</p>	
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334574 Applicant Identification Number	 Director General NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
	Verification QR Code 
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### Appendix VII: Map of the Nairobi Metropolitan region

