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**THE RELATIONSHIP BETWEEN MARKETING PROGRAMS AND CUSTOMER
LOYALTY IN THE BANKING INDUSTRY IN KENYA**

Maina Judy Muthoni

**Submitted to Strathmore University in partial fulfilment of the requirements for
Master of Commerce at Strathmore University**

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Judy Muthoni Maina
Signature

Approval

The thesis of Judy Muthoni Maina was reviewed and approved by the following:-

Dr. Hellen Otieno,
Senior Lecturer,
Strathmore University Business School
Strathmore University

Dr. George Njenga
Dean, Strathmore Business School
Strathmore University

Prof. Ruth Kiraka
Dean, Strathmore Graduate Studies
Strathmore University

ABSTRACT

Development of sound and vibrant commercial banks is a crucial engine for economic growth in Kenya. Over the past decade, commercial banks sector has not only undergone fundamental growth but the environment has become highly competitive. To this end, commercial banks have to adopt sound strategies that will enhance sustainable growth and profitability. Modern theories such as commitment-trust theory emphasize on customer loyalty as a driver of sustained profitability and further purport that relationship marketing program are vital for attracting and retaining profitable customers. The purpose of this study was to analyze the relationship between marketing programs and customer loyalty in the banking industry in Kenya. The study adopted four objectives. The first objective sought to identify Descriptive research design was used for analysis. Primary data was used for analysis. Nairobi area was identified as the sample frame. Stratified-Random sampling was adopted, four large banks were identified as strata and data collected randomly from each bank. Ordinary Least square was used for analysis. Five main variables were identified including relationship marketing, innovative products and loyalty program as independent variables and customer loyalty as the dependent variable. The results showed that majority of customers were satisfied with services offered by the bank. Descriptive statistics results confirm that majority of were loyal to the banks and further agreed that relationship marketing was an important factor that increased customer satisfaction. ANOVA results revealed that customers ranked innovative products differently across the four banks. Regression results showed that identified relationship marketing, innovative products and loyalty programs were significant determinants of customer loyalty. Relationship marketing has a coefficient of 0.66 which means that a unit increase in relationship marketing increases customer loyalty by 0.66. Innovative products and loyalty program had a coefficient of 0.396 and 0.35 respectively. It was recommended that banks should focus on strategies that improve relationship marketing. Secondly, product innovation was identified as a competitive driver. It was recommended that commercial banks should focus their resources on innovating products that may enhance their competitive edge and improve both customer needs and expectations.

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DEDICATION

I dedicate this thesis to my family. May God bless you for your continued support.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In modern society, development of a sound and vibrant banking sector is crucial for economic development. Modern theories content that growth of any industry is facilitated by healthy competition. In the banking sector, competition is drives efficiency in resource allocation and ultimately improves financial intermediation, profitability and ultimately, sustainability. In order to remain competitive, organizations have to adopt strategies that will enable them attract and retain customers given stiff competitive environment. Empirical literature in developed and emerging economies have established that the ability to create and maintain consumer loyalty is fundamental in winning the market share and developing a sustainable competitive advantage (Afsar, Rehman, Qureshi and Shahjehan, 2010; Maxim, 2009; American Marketing Association, 2004; Reily,2003).

The Kenyan banking sector comprises of 43 licensed commercial banks and one mortgage finance firm and 6 deposit-taking non-banking financial institutions (CBK, 2013).The Kenya Banking industry is categorized into large banks, medium banks and small banks. The number of banks in the large sector is 6 while medium sector has 15 while the small banks are 22. These banks exclude the Charterhouse Bank which is under statutory management (Banking Supervision Report, 2011).Over the last two decades, the Kenyan banking sector has registered robust growth primarily due to development of competitive environment. Competition in Kenya was fundamentally driven by change in strategy and focus by Equity Bank and Kenya Commercial Bank to the unbanked mass market (Kamau, 2009).

In recent years, the Kenyan banking sector has undergone fundamental transformation in order to remain competitive. Firstly, technological advancement and economic development and rapid urbanization have played a critical role increasing demand for banking services in Kenya (Kamau, 2009; Banking Supervision Report, 2011). Notably, change from paper based systems to computer systems played a fundamental role in improving effectiveness and efficiency in the banking sector (Goosen, Pampallis, Van Der Merwe&Mdluli 1990). Moreover, technological advancement facilitated introduction of alternative banking channels e.g. ATM's (Automated

Teller Machines), mobile banking and internet banking. These developments fostered growth of banking sector by enabling banks to expand their geographical outreach, penetrate what was otherwise inaccessible markets and establish a foothold in remote areas where majority of under banked and unbanked masses operate (Kamau, 2009; Banking Supervision Report, 2011).

Despite recent technological and economic development in banking sector as a whole, adoption of sound marketing and promotional strategies remains a key driver of intra-industry competition and growth (Bhatty, Shinkle & Spalding 2001). Empirical literature has proven that sustainable growth and profitability is primarily driven by ability to attract and retain customers. In this regard, loyal customers are valuable to a business. Therefore, creating and maintain loyalty should be a major goal of any business. Banks should therefore make relationship banking an integral part of their business (Ciciretti, Hasan&Zazzara 2009; Durking, O'Donnell & Crowe 2008).

Focus on customer loyalty has influenced business managers to adopt various marketing programs for example relationship based marketing strategies, as opposed to the traditional transaction based marketing methods, to enhance customer loyalty (Maxim, 2009). The marketing programs which include the strategy of relationship management (henceforth identified as RM) as a concept of customer loyalty has received much focus both academically and in the practical corporate set up. This is mainly due to the complexities of the products being offered and also the need to ensure that the customers understand the products being offered and that they are placed in the right preposition (American Marketing Association, 2004).

Several researchers investigated the drivers of customer loyalty in organizations particularly financial institutions. A study by Lam, Lo and Burton (2005) on the drivers of loyalty banking in Hong Kong banks found out that offering excellent services to customers of a bank as well as meeting their needs are key factors that promote customer loyalty to service organizations. The study established that the nature and complexity of products offered in the banking industry requires a significant level of relationships and personal contacts with customers. Beerli *et al.* (2004) studied the drivers to customer loyalty in banking industry and established three key factors namely; perceived quality, satisfaction and switching cost. They argue that when customers perceive certain banks to be offering them quality services as well as services that offer them satisfaction, they are likely to replicate the kindness by being loyal to the banks. De Matos *et al.*

(2009) also emphasize on satisfaction as a driver to loyalty in banks. Beerli *et al.* (2004) also showed that customers' switching cost is a direct antecedent of loyalty. They argue that customers will become loyal to a bank that offers them lesser switching costs between different brands of products or services.

According to De Matos *et al.* (2009), customer satisfaction is a significant driver of customer loyalty. The research established that there is a strong correlation between level and quality of service received and level of customer loyalty. O'Brien and Jones (1995) note that customers will perceive certain products to be satisfactory than others based on the value they get from those products. They further emphasized that the customers' perception of value is very significant in developing a brand loyalty. Alam and Khokhar (2006) based on a case of Swedish Banks assert that having highly innovative products and services is a crucial driver to customer loyalty in financial institutions. Innovative products and services help differentiate and segment customers into various categories. This classification based on various customers' needs and wants ensure that all customers in each segment get a product that is synonymous to their need and want. Afsar *et al.*(2010) further explain that it is important to monitor these product/service features and customers' response to them by clearly understanding one's competitive advantage over the other to retain customer loyalty.

Other scholars for instance Yi & Jeon, (2003) have also opined that having a loyalty program also influences a bank to enhance its customer loyalty levels. A loyalty program enhances the loyalty life cycle by encouraging new customers (those with less than two years old) to transact like a company's most profitable 10th-year customer. Through a loyalty program, the new customers are motivated to buy more, pay higher premium prices, and bring in more new customers by referrals (O'Brien and Jones 1995). Kim, Shi and Srinivasan (2001) added that loyalty programs increase brand loyalty by creating switching costs and increased operational profit through avoided price competition. In the banking sector, the switching costs are not common though banks allow their loyal customers to change account products with very few or no extra charges in terms of new account opening charges.

Harrison (2005) asserts that building long term relationships with customers leads to reduced defections. Ehigie (2006) concurs in his study on the Nigerian banks and established that

Relationship Marketing significantly determined customer loyalty in most of the banks. He argued that creating better relationships between banks and customers made customers feel that their needs are well taken care of hence giving customers the desire to be loyal in order to continue enjoying the relationships. De Matos *et al.* (2009) and Lin and Wang (2006) also mentioned trust and commitment as another driver towards customer loyalty. When there is trust between customers and their banks and each part is committed to play their part, there is a possibility of loyalty based on the relationships built.

Afsaret *al.* (2010) argues that since the banking sector has many chances of interacting with customers, it requires that bank managers must know and understand the various factors that influence customer loyalty. Hence the importance of understanding various marketing programs and their effect on customer loyalty in banks.

1.2 Marketing programs

A marketing program is a coordinated, keenly deliberated set of activities that help a marketer achieve his/her marketing objectives (Hiam, 2009). It is a strategy explaining how marketing goals will be met. For instance, if the marketing goal is to enhance customer loyalty, an example will be rewarding loyal customers by offering them discounts on the goods/services purchased. Hiam (2009) further discusses that marketing programs are specific to the purpose served and the marketing policy of the executing organization. This implies that one bank could use discounts to attract and retain customers while another bank could offer well designed products and services of higher value than its competitors. Hiam (2009); Farrell and Hartline (2008) argue that marketing is a wide field with diverse elements from which marketing programs can be designed. Some of these elements are advertising; packaging; brand/logo designs; sales calls; conferences and shows among others. Despite the many elements, Waters (2011) discuss that marketing programs must be simple, easy to execute, customer centered and beneficial to the organization.

People have needs and wants that must be met in their course of life. Needs are the major things that give people satisfaction while wants are those things that lead to the meeting of the needs (Farrell and Hartline, 2008). For instance, the desire to keep money safe is an individual need while the corresponding deposit to the bank account is the want. Marketing programs will therefore

enable the marketer provide wants that will meet the customers' needs (Farrell and Hartline, 2008). Hiam (2009) argues that there are three goals of marketing programs: attract new customers; retain old customers and reconnect with past customers through communicating to them the value and quality of your products with an aim of influencing purchase from them. It is based on this that the study aims to establish the relationship between marketing programs with customer loyalty (customer retention).

1.3 Banking Sector in Kenya

The Kenyan banking sector comprises of 43 licensed commercial banks and one mortgage finance firm and 6 deposit taking non-banking financial institutions (CBK, 2013). The first three banks to be launched in Kenya were the Kenya Commercial Bank (KCB), Barclays Bank of Kenya (BBK) and Standard Chartered Bank (StanChart). These banks are the largest at the moment based on asset base (Kuza Biashara, 2012). Out of the 44 banks, 40 are privately owned while 3 are government owned. Of those that are owned privately, 28 are locally owned while 13 are foreign owned (foreign ownership share exceeds 50 percent (CBK, 2013). Foreign banks command a market share of 40.3 percent out of which 30 percent is owned by BBK and StanChart (KuzaBiashara, 2012). Of the local banks, Equity owns the largest market share followed by KCB (CBK, 2013).

According to CBK (2012), Kenya's banking sector may be categorized into three main segments commonly known as Tiers. Central Bank classifies tier I banks as those which controls more than 5 percent of the market share, Tier II banks control between 1 percent and 5 percent of market share and Tier III one that controls less than 1 percent of the market share. There are six (6) Tier I banks with branch network of 546 branches, 15 tier II with a branch network of 310 branches and 22 tier III with a branch network of 199 branches (CBK, 2012). For the purpose of this study, tier I banks are referred to as large banks, Tier II banks are defined as medium banks and tier III are defined as small banks

The Kenyan Banking sector is regulated by Companies Act, the Banking Act, the Central Bank of Kenya Act and several other guidelines issued by the Central Bank of Kenya (CBK). The sector was liberalized in 1995 and exchange controls lifted. The regulator of the sector, CBK, is charged

with ensuring the formulating and implementing monetary policies and fostering the liquidity, solvency and proper functioning of the financial system. The Kenya Bankers Association (KBA) is the lobby group created to safeguard banks' interests (CBK, 2013).

Over the last two decades, the sector has recorded increased growth in deposits, assets, product offerings and even in profits (KuzaBiashara, 2012). Bankers have attributed this growth to a relatively improving economy and the consequent increase in demand for banking services in the region. Integration of the East African Community has facilitated market expansion as well as increased demand for banking products by the rural population that was previously untargeted. Other factors that have driven this growth include automation of most of the banking services, paradigm shift towards customer needs and emergence of a competitive banking environment (Ahmed and Islam, 2010; Kamau, 2009; CBK, 2011).

According to KuzaBiashara (2012), a research by Dr. RadhaUpadhyaya on the banking sector in Kenya found out that Kenyan banking systems are shallow and fragile. Apparently this problem is caused by the ownership composition of banks. The effect of this fragility and shallowness are the low lending levels, high interest rate spreads, high levels of non-performing loans and several bank failures. According to Ahmed and Islam (2010), these are some of the factors that make competition among the banking sector so fierce. The factors also give reason to banks to retain their highest performing customers.

1.4 Customer Loyalty and Banking

Studies have shown customer loyalty is a crucial component to the success of banks (Ehigie, 2006). Ehigie's (2006) reiterates that banks have indulged in offering quality services to their customers with an aim of making them loyal. He argues that by enhancing the quality of services/products given, banks ensure that their customers get value from their branches hence reducing the reasons that might make them leave. There are several ways through which this quality is achieved in banks. Onditi, *et al.* (2012), in concurrence with Ehigie's (2006) observation, argue that Kenyan banks have realized that the cost of recruiting new customers is so huge that it threatens profitability. This has forced most of these banks to engage in strategies aimed at enhancing customer loyalty. Zeithaml and Bitner (2000) discuss that quality in banking sector is achieved

when: the bank atmosphere is conducive to customers; there is a good relationship between customers and the bank; the rates offered and charges demanded are fair; when services available are convenient; the availability of ATMs; reliability/honesty; and when there are enough and accessible bank employees like tellers. Zeithaml and Bitner argue that banks are significantly investing in ensuring that these aspects of quality are offered or accessed by their customers so as to enhance their loyalty.

Opati (2012) noted that Kenyan banks are working hard to ensure that they make their customers loyal. He gives an instance of Equity bank which targeted the common man who was unbanked and untargeted by other banks and has continued to offer better products that match the needs of this niche to enhance their loyalty to the bank. This has made it costly to Equity's competitors to target the same market. Opati (2012) further gives instances of KCB, Cooperative and Barclays bank engaging in coming up with marketing strategies that ensure that they do not lose their customers. It is based on this argument that Castro and Armario (1999) posited that the importance customer loyalty can have on banks' performance; bank managers have involved themselves in designing and implementing strategies that will significantly enhance customer loyalty.

Various Banks have adopted different marketing programs to enhance customer loyalty. For example Barclays Bank of Kenya (BBK) has segmented its various customers into standard customers, Premier Life Customers and Premier Customers. Premier Customers enjoy a relationship based service though they pay a premium for it. These segmented customers also enjoy differentiated interest rates both in deposits and loans. These differentiated interest rates are mirrored across all Banks. Standard Chartered Bank, Equity Bank and Kenya Commercial Bank have also segmented their customers into various categories as part of the marketing programs.

1.5 Statement of the Problem

Over the last two decades, the Kenya's banking sector has recorded increased growth in deposits, assets, product offerings and profitability (Kuza Biashara, 2012). Bankers have attributed this growth to a relatively improving economy, consequent increase in demand for banking services and enhanced efforts in integration of East African market. However, the industry has also witnessed increased competition due to liberalization of interest rates and increased number of players in commercial banking industry. As competition within the banking industry continues to

become fierce, banks have realized the need to adopt strategies that may promote sustainable profitability.

Marketing programs aimed at creating and maintaining of customer loyalty have been identified key strategic areas that may enhance sustainable profitability (Lam *et al.* 2005; Ehigie, 2006)). Marketing programs can thus be categorized into excellent service, perception of value, highly innovative products, relationship marketing and loyalty programs. Embedded in this principle is the need to sensitize banking staff and tailor the banking institution culture towards provision of excellent service to the customers with an aim of satisfying and retaining them for a long period of time. Loyal customers not only increase the value of business, but they also enable it to maintain costs lower than those associated with attracting new customers (Castro and Armario, 1999).

Several studies in developed and emerging economies have shown that financial institutions that employed marketing programs to achieve customer loyalty have significantly contributed to increased, customer satisfaction and brand development (De Matos *et al.* 2009; O'Brien and Jones 1995; Beerliet *al.* 2004; Alam and Khokhar, 2006). However few, studies have investigated the influence of marketing programs on customer loyalty in Kenyan market. Adoyo, *et al.* (2012) did a study on the Retail pharmacies in Western Kenya. This study established that basically quality of service is directly correlated to customer loyalty; the study also showed that relationship marketing influences customer loyalty. However, no known studies have been carried out to clearly establish the relationship between marketing programs and their effects on customer loyalty in the current banking sector in Kenya.

This study aims at investigating the influence of marketing programs on customer loyalty in the banking industry with specific focus on tier I or large commercial banks in Kenya. Focus on banking sector was motivated by the following reasons: First, as leaders in the banking industry large commercial banks have expansive products and services that can be tailored to fit their customer's needs making the industry a suitable candidate for the study. Secondly, the unique competitive environment and nature of industry prompt the need for research on customer loyalty management in the banking industry. Thirdly, commercial banks are the biggest players in the financial sector and play a crucial role in the economy. To this end, understanding strategies that enhance best practices and facilitate growth of the industry is crucial for the sector and the economy as a whole.

It is based on this gap that the study aims to analyze the relationship between marketing programs and their effects on customer loyalty in the Kenyan banking industry. In an attempt to address this gap, the following specific objectives were adopted:

1.6 Objectives of the Study

- i. To evaluate the difference of customer loyalty programs across selected banks in Kenya
- ii. To evaluate the relationship between relationship marketing influences customer loyalty in banks in Kenya
- iii. To analyze the relationship between innovative products and customer loyalty in banks in Kenya
- iv. To examine the relationship between loyalty programs and customer loyalty in banks in Kenya

1.7 Research Questions

- i. How different are customer loyalty programs across selected banks in Kenya?
- ii. What is the relationship between the relationship marketing and customer loyalty in banks in Kenya?
- iii. What is the relationship between innovative products and customer loyalty in banks in Kenya?
- iv. What is relationship between loyalty programs and customer loyalty in banks in Kenya?

1.8 Significance of Study

This study will be of significance to the following financial institutions' stakeholders:

Bank Managers

This study offers information of value for use by bank managers. In the current competitive market, customer loyalty is key to sustainability and profitability of banks. This study analyses how certain products and services that banks offer are likely to lead to customer loyalty hence

equipping managers with information of value towards their banks' benefit. The findings of this study can also enhance a bank's competitiveness in the financial market.

General Public

The study informs how the services and products banks offer lead to customer loyalty. This information equips the general public with information concerning things banks should offer them for their loyalty. This puts the customers (public) in a better position to be able to make the right bargain of the kinds of products and services their banks need to offer them in order to make them loyal.

Researchers/academicians/scholars

This study provides a source of reference materials for academicians and scholars who may want to advance studies concerning customer loyalty in the financial sector.

1.9 Scope of the Study

This study focused on establishing the extent to which customers perceive the marketing programs provided by banks in Kenya. This meant that the analysis presented was different from that expected from other industries/sectors. The scope was limited to commercial banks in Nairobi. Second, the scope was limited to four banks. However, due to the sensitive implication of the study findings, the names of the banks were withheld. Focus on four banks was motivated by the fact that competition among these four banks is so fierce that each one of them engages in unique and complex marketing strategies to outperform its competitors. These banks also engage in aggressive and defensive measures to enhance their customer base. It is based on these factors that the study investigates the relationship between marketing programs and customer loyalty on these four major banks in Kenya. As time goes, competition increases hence influencing the marketing strategies adopted. To avoid the findings of this study being used in a period where they will likely be obsolete, the scope is limited to the period not exceeding June 2013.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviewed theoretical and empirical literature related to the relationship between marketing programs and customer loyalty in the banking industry in Kenya. The study reviewed relationship marketing (RM), innovative products and services and loyalty programs as aspects of marketing programs and their effects on customer loyalty.

2.1 Theoretical literature

2.1.1 Customer relationship Management theory

Customer relationship management (CRM) can be defined as strategies and policies geared towards attraction and retention of customers by developing and effectively managing long time relationships (Raabet *et al.*, 2008; Beerliet *al.* 2004). CRM theory focuses on forging and nurturing customer relations in an attempt to enjoy business from satisfied and loyal customers, nurture customer loyalty and thus expand and maintain the market share. CRM is a dynamic approach to the extent that it requires a disciplined and systematic utilization of market information, consistently developing innovative products that not only meets customer expectations, habits, and needs but also maximizes consumer experience (Raab *et al.*, 2008; Morgan and Hunt, 1994). CRM encompasses investment in strategic vehicles that enhance economic value and ultimately fosters long term relationships between an organization and consumers. There are three management aspects that contribute to customer relationship management and are best represented in the diagram below (Beerli *et al.* 2004).

From the model above, a fully consumer centric organization aims at achieving customer intimacy. This theory provides three sequential steps towards customer intimacy

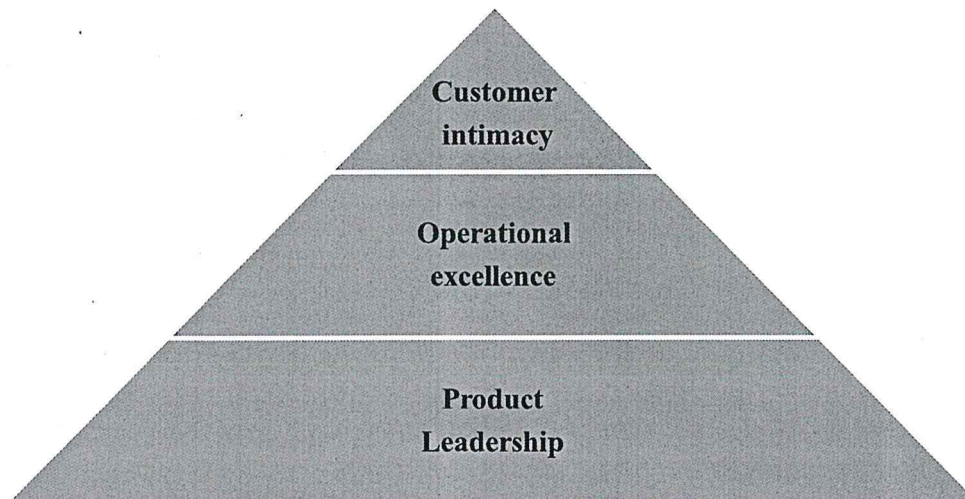


Figure 2.1: Pyramid Showing CRM model

Source: Raab et al., 2008

First, product leadership is at the bottom of the pyramid because most players use product-driven strategies to compete in the market. Product leadership is tangible and therefore relatively easy to adopt, imitate and manage. Therefore, while this can lead to competitive advantage in the short run, technologies especially in the industry can easily be duplicated especially in this information driven age. However, product leadership is very important in a competitive environment as it contributes towards quality and cost management (Raab *et al.*, 2008; Beerli *et al.*, 2004; Morgan and Hunt, 1994).

Second operational excellence entails producing quality products in the most cost effective way possible, operational excellence is vital in a competitive environment because of price wars that are inherent in this market structure. However, over emphasis on cost reduction can come at the expense of excellent service and maximization of consumer experience (Raab *et al.*, 2008). This notwithstanding, operational excellence is less likely to be imitated because it

Thirdly, customer intimacy is at the top of the pyramid because it encompasses integration of product leadership and operational excellence and on top of this creates sustainable competitive advantage because each firm adopts strategies that best suits their customers. Customer intimacy leads to enhancement of unique resources and capabilities through differentiation, and therefore

promotes sustainable competitive advantage (Raab *et al.*, 2008; Beerli *et al.* 2004; Morgan and Hunt, 1994).

2.1.2 Commitment-Trust Theory

The commitment-trust theory is one of the most applied relationship marketing theory in modern times. This theory asserts that business firms must build and/or focus on creating trust and commitment with the customer in order to successfully attain customer loyalty (Raab *et al.*, 2008). According to Morgan and Hunt (1994), this theory primarily encourages long term approach and strategies and discourages institutions from focusing on short-term or temporary clients at the expense of loyal or long-term clients. The theory supports making short run losses and taking risks if they may help in enhancing trust and commitment between customers and the institution (Morgan and Hunt, 1994).

Commitment trust theory therefore supports the definition of relationship marketing which categorically describe relationship marketing as perceived strategies that create long-term commitment, loyalty and profitable relationships with both potential and existing customers through, advertisement effective communication and the provision of quality goods and services (Raab *et al.*, 2008; Morgan and Hunt, 1994).

According to Morgan and Hunt (1994), the commitment-trust strategy is a chronological concept developmental process that may take six successive stages: identification of prospects or potential customers; selling of goods and/or services to a customer; facilitating repeat sales. Introducing programs that build on customer loyal customer and lastly, making the loyal customer a partner through creation of a working and mutually benefiting relationship between the institution and the customer.

Therefore, theoretical literature therefore shows that customer relationship management is vital for business growth and sustained profitability in modern business environment. Among the elements that foster customer intimacy/loyalty include operational excellence and product leadership. Generally, both CRM and CRT theories contend that building and managing good marketing programs fosters commitment, trust and relationship quality. Marketing programs create an institutions' competitive edge through enhancement of customer retention and customer acquisition and ultimately fosters long-term profitability.

2.2 Empirical literature

This section presents studies on the relationship between relationship marketing programs and customer loyalty around the world.

2.2.1 Customer Loyalty

Opposing views exist regarding the importance of customer loyalty in business setting (Rayner, 1996). Conventional view dismissed the relevance of loyalty in business and maintains that it should only have a place in life's finer institutions namely family, church, school and community. Experts claim that loyalty is dead and that some statistics confirm this view. Ambler (2003) stated that none of the pro-loyalty supporters have proven their views empirically. East, Lomax & Freeman (2002) for example, challenged the increased customer gain from referrals and found that it was only relevant in industries.

Reinartz and Kumar (2002) in their research felt that a much weaker relationship exists between loyalty and profitability, than what the supports of loyalty programs claim. They found that long-term customers were not necessarily less price sensitive or less expensive to serve, but accepted that this differs per industry. Their evidence stated that these customers expect lower prices based on their loyalty. Some customers also indicated that they resent companies that do benefit from loyalty. However, the study noted that certain customers are more valuable than others prompting the need to measure the relationship between loyalty and profitability and to focus on marketing strategies that target profitable customers.

Amber (2003) concluded that it is wrong if companies are only interested in creating long-term growth, profits or shareholders value at the expense of customers' needs and expectations. "*Customer loyalty means that customers are so delighted with a company's product or service that they become enthusiastic word-of-mouth advertisers*" (Bothe, 1996; pg 17). According to Gitomer (1998), creation of customer loyalty is primarily pegged on meeting the customer needs and expectations. Satisfied customers are the most effective advertising vehicles in modern business. Beerli *et al.* (2004) established that loyalty has been, and continues to be, the most efficient and reliable modes of brand growth and management. The study showed that loyalty is a concept that goes beyond simple purchase repetition behavior since it is a variable which basically consists of

one dimension related to behavior and another related to attitude, where commitment is the essential feature.

In this regard, customer acquisition and retention has become a central part of business strategists in the modern business. Brink and Berndt (2008) and Robinson and Etherington (2006) confirm the statement that loyalty goes beyond simple purchase repetition. Brink and Berndt (2008) stated that customer loyalty means that customers are committed to purchasing products and services from a specific organization and will resist the activities of companies attempting to attract their patronage. They have a bond with the organization, and the bond is based on more than a positive feeling about the organization. It is an emotional and attitude based preference resulting in behavior of spontaneous personal recommendation and/or purchase (Robinson & Etherington 2006).

Doyle (2000) emphasizes that customer loyalty is the most important determinant of profit margins and long-term growth. Loyalty is about earning customers' enthusiastic commitment to a relationship that will improve the customers' lives over the long-term (Iniesta & Sanchez, 2002). Rayner (1996) argued that loyalty can be applied as a long-term strategy in order to build long-term customer relationships. Loyalty marketing is based on the recognition that it is cheaper to general more business from existing relationships, than it is either create new, or win new customers. The study found that loyal customers tend to purchase more frequently and also spend more. This results in a higher return on investment on those customers who stay longer.

Therefore, for the purpose of this study customer loyalty is be defined long standing customer connection and preference of the product and/or services of particular organizations over and above those of the competitors. Theoretically, customer loyalty manifests through commitment and devotion of customer to a particular companies' product and services as a result of positive emotional experience and satisfaction in the value of the institutions product and services (Acumer, 2001; Berndt, 2008).

This study focuses on the influence of marketing programs on customer loyalty because the later vital for long term development and growth of individual banks. Given that banking institutions primarily offer similar products and services, developing customer connection to a particular bank

improves profitability through creation of competitive advantage (Robinson & Etherington 2006, Berndt. 2008).

2.2.2 Marketing Programs

In modern business environment, marketing programs are vital for brand creation, management and profitability. The American Marketing Association (AMA), (2004) noted that, in the 21st century marketing programs are an integral part of any business. Marketing is an organisational function comprising of a set of processes that create, communicate and deliver value to customers and for managing customer relationships in ways that are beneficial to the organisation and its stakeholders (AMA, 2004).

Farrell and Hartline (2008) argue that a marketing program should aim at introducing products/services that will fulfill needs or present the wants to customers and convince them that only those wants can be able to meet their needs. Hiam (2009) argued that marketing programs should be designed with the aim improving customer needs and expectations. Marketing program should incorporate elements that directly engage the customer in order to build confidence and loyalty (Hiam, 2009).

For example, in a bank setting marketing programs entail the following; neatly arranged and tidy banking hall, short queues, a friendly service personnel who attends to all customers' needs adequately and in the shortest time possible may enhance customer experience. In addition, good feedback mechanism and follow up on the quality of service and other customer views, complains and suggestions. Following from the preceding example, primary elements are the good customer care services and the services received at the bank while the secondary element is the good environment in the banking hall (Farrell and Hartline, 2008; Hiam, 2009).

In this regard, a good marketing program must have both primary marketing methods supported by strong and relevant secondary marketing methods. Farrell and Hartline (2008) discuss that once these methods meet the needs the customer has, and then the marketing program leads to customer attraction and retention. Consistency in offering these services and always staying at the top through continued innovations will enhance customer loyalty.

Marketing programs that aim at product leadership and brand creation promote customer loyalty by targeting both product leadership and operational excellence. Effective marketing programs are important in differentiating and providing customers with a reason to frequent a company's business instead of its competitors hence promote customer loyalty. For the purpose of this study marketing programs are divided into three distinct categories which include relationship marketing, innovative products and loyalty programs.

2.2.3 Relationship Marketing

Relationship Marketing (RM) refers to through the creation of trust and strong relationships between customers and the banks with the aim of customer retention (Berry, 1983; Abratt & Russell, 1999). Berry (1983) considered RM as the backbone of most service businesses to attract and retain its customers. The study argued that the process of attraction of customers is just an intermediate process to marketing. In addition RM entails making solid relationships, through enhancement of personal experience

Berry (1983) asserted that based on the intangibility of products dealt with in the banking sector, it is difficult for customers to evaluate banks. However, banks have adopted customer centeredness marketing-Relationship marketing as a platform for creation of competitive edge. According to Wright (2002), RM is the best way of retaining the current customers as well as attracting new ones in the highly competitive financial sector. Gringos (1994) identified the main aim of RM as to establish, maintain, and enhance relationships with customers and other partners, at a profit, with the aim of meeting the objectives of all the concerned parties.

Relationship marketing involves the creation of long-term relationships between the marketers (banks) and customers with an aim of benefiting every party involved as well as to allow the co-creation of value as opposed to its unilateral distribution. Transactional marketing focused on attracting many new customers who would enable the organization generate as many transactions from them as possible. RM on the other hand focuses on attracting as well as retaining customers by creating connections that will lead to understanding customers better (Maxim, 2009). Relationship marketing becomes beneficial to a bank to an extent of creating loyalty when it achieves a given level of satisfaction that customers want from it. The relationships created by the

bank with the customers must be able to give the customers all reasons to smile and be proud of their bank before they can induce a thought of loyalty in customers (De Matos *et al.*, 2009).

According to Morgan and Hunt (1994) defines RM as marketing activities that directed towards developing relationship exchanges such as credibility, trust, security and safety. This of course puts sense in the word 'relationship'-it should be a two-way thing to both participants. For relationships to grow to the extent of benefiting all the concerned parties there must be commitment and trust between the parties to the relationship. Morgan and Hunt further argued that RM is all about commitment-trust theory. They refer to commitment as where parties (customer and bank) are committed to starting, perpetuating and enhancing the relationship to exist to maturity. De Matos *et al.* (2009) argued that no relationship can exist and progress if there are no mutual benefits for all parties concerned.

To further emphasize the significance of commitment to loyalty in a relationship, Reichheld (1996) argued that there must be a strong "attitudinal commitment" to a brand for true loyalty to exist. Ndubisi (2007) opines that commitment is normally higher among customers who receive more value from the relationships they have with their banks. These customers always try to reciprocate for their commitment by being more loyal to a firm and its brands. This also infers that highly committed firms will gain from the reciprocity of the customers.

Morgan and Hunt (1994) further noted that RM can never be founded if there is no trust among the concerned parties. They considered that a successful relationship is where the parties trust each other and each of them is free to give-and-take without distrusting the other party's involvement. They conclude that RM will be successful to an extent of creating loyalty if it meets the two main conditions-commitment and trust. Ndubisi (2007) note that when the trust characterizing the relationship between customers and their firms is eroded, defection takes over and as such there is no loyalty. In RM, the relations created have also been considered to give banks invaluable information on how best to serve customers and keep them from defecting to competing brands (Ndubisi, 2004).

Apart from trust and commitment, communication and conflict resolution are other aspects of RM that drive customer loyalty among firms (Ndubisi, 2007). In the current business arena,

communication has been specified as an interactive dialogue between the company and its customers, and occurs in the pre-selling, selling, consuming and post-consuming stages (Anderson & Narus, 1990). According to Ndubisi (2007), communication in RM involve maintaining contact with valued customers, providing timely and trustworthy information on service and service changes, and offering proactive communication in case of problems in delivery. Through communication, the communicator creates awareness, develops consumer preference through such activities like promotion and performance, lures interested buyers and encourages them to make the decision to purchase as well (Ndubisi& Chan, 2005).

Ndubisi and Chan (2005) also noted that communication is also important to creating loyalty when it comes to the sharing of secrets. They argue that when customers feel that important secretes about their relationship to their firms are shared, there is an increased trust into the firm hence loyalty. Communication is also relevant in addressing the issues of unsatisfied customers. Effective and efficient communication between firms and their customers, create a better relationship that leads to more loyal customers (Ndubisi, 2007).

Better conflict resolution procedures have also been cited to influence relationships between customers and banks hence leading to loyalty. According to Dwyer *et al.* (1987) as cited in Ndubisi (2007, p.100), conflict handling refers to “*a supplier’s ability to avoid potential conflicts, solve manifest conflicts before they create problems, and discuss solutions openly when problems do arise*”. Ndubisi (2007) found out that firms that are able to handle conflicts well are in a better position to build relationships that are likely to enhance the loyalty of customers to the firm’s brand.

Since RM focuses on the relationships customers have with their firms, it basically focuses on the ensuring particular customers’ needs are met in order to build a long lasting and mutual satisfying relationship between the institution and its clients. Studies have shown that the value added services financial institutions offer besides the products significantly affect the loyalty of their customers (Kumar, 2005). De Matos *et al.* (2009) observed that some customers are normally most concerned with how they are treated by their firms than by what specifications the products they purchase have. This makes such customers to put more value in the satisfaction delivered by the value adding services like relationships than in the satisfaction delivered by the product

specifications. Kumar (2005) points out that the satisfaction customers have with their banks speak volumes when they are founded on better and stronger relationships than when they are based on the product specifications. Reichheld (1993) on a disagreeing point noted that being very satisfied or being satisfied was not a measure of loyalty since some customers still defected even after being satisfied.

In this regard, theoretical argument holds that there is a positive relationship between customer loyalty and relationship marketing. Relationship marketing is an important explanatory variable that focuses on marketing programs that improve the quality of relations and interactions between a customer and the firm. Notably, relationship marketing aims at development of personal connection through enhancement of the value of service and positive emotional experience. The ability to provide and develop relationship quality improves customers experience, credibility and trust in an organizations products and services and influences customer's expectations which ultimately results in customer loyalty.

2.2.4 Innovative Products and Services

In a highly competitive business sector, designing and delivering value is of significant result on the success of a business. Customers have become knowledgeable such that they are able to compare the price of a product and its value and will only pay when the value matches the cost (Siddiqi, 2011). Customers are increasingly searching for and demanding value in products and services. Studies have shown that companies that put more emphasis on the value of the products they give to their customers always succeed (Bhattacharya & Singh, 2008; Raich, 2008). Products and services having significant value are highly appreciated by customers than those with low value (Siddiqi, 2011). Alam and Khokhar (2006) presented that products/services that are highly innovative offer substantive value to customers.

Several studies have linked customer loyalty to the quality of services a bank offers (Zeithaml, Berry, and Parasuraman, 1996; Beerliet *et al.*, 2004; Lam *et al.*, 2005). Lam *et al.* (2005, p.173) note that some studies look at service quality in terms of '*efficiency and attitude of service delivery*' which is only achieved when the services are innovative enough to factor in time saving and quality functions. According to Jamal and Kamal (2002), customer satisfaction is considered the resultant

feeling or attitude a customer gets after using a certain product or service. Through this, Jamal and Kamal put emphasis of satisfaction in the after-use of the product or service. For the products to offer higher satisfaction then, they must be of higher quality, innovative enough and relevant to the customer needs (Alam&Khokhar, 2006). De Matos *et al.*, (2009) observes that increasing the product base will only contribute to loyalty if the switching cost between the same organization's products is very low; when all or most of the many products offer the desired satisfaction to the customer and when switching from the organization's product to other organizations' products has a higher switching cost that discourages customers from migrating from the organization's products.

There are several features in a product that drive customer loyalty. Alam & Khokhar (2006) noted that apart from the quality and innovativeness of the product, a satisfactory product fosters loyalty of customers have the following qualities; value for money; reliability and convenience; safety; value addition and functionality. These qualities play a fundamental role in creating create temporal loyalty among customers. Jahanshahi, *et al.*, (2011) found out that innovative products and services are characteristic of added quality features, low priced, and of a higher value that offers satisfaction to customers. This study concluded that satisfaction may not lead to loyalty if the competition offers more innovative products and services. Jahanshahi *et al.*,(2011) further observed that when products or services are innovative enough, and the innovation takes into account the customer needs and preferences, the products/services are likely to drive loyalty provided the market (competitors) have fewer or no imitations of the same product/service.

Allen (2004) considers that for the innovation in the products or services of a firm to offer the desired satisfaction that can lead to loyalty, the customer expectations from the innovations of the product or service must not be unrealistically inflated. He argues that inflating the expectations might be costly for the firm making it difficult to maintain the standard of the product hence a product that is likely to be less satisfactory.

Martisiute, Vilutyte and Grundey (2010) argued that the main role of products in any business sector is to satisfy or meet the needs and wants of customers. Every marketer designs their product with this need in mind. However, having an innovative product relates to having the product but with superior features (mostly technology enhanced) than competitors. An innovative

product/service is able to offer extra features that enhance customer satisfaction hence driving customer loyalty (Nemati, Khan & Iftikhar, 2010; Martisiute *et al.*, 2010). To be able to maintain the loyalty and brand of the company, the company ought to be a 'first mover' in coming up with unique products ahead of the competitors (Martisiute *et al.*, 2010).

Martisiute *et al.*, (2010) argued that the innovative efforts should be geared towards ensuring that the innovated products end up to be brands specific to the company. Customers always want to identify themselves by stronger brands hence being innovative and 'first mover' always attracts more customers to identify with the brand hence loyalty. In the continued innovations, Martisiute *et al.* (2010) warn that customer needs and preferences should always be considered. Customers' consumption needs should always be studied to come up with adequate findings of the features to be included in the innovative products.

Oliver (1997) and Nemati *et al.* (2010) established that for innovative product and service quality to drive customer loyalty, there must be an acceptable quality product being designed at the right price and availed within the right time and convenience to the consumers. Nemati *et al.*, (2010) concluded that technical product functionality and reliability are key features that the innovative product must have for it to create the desired satisfaction that will drive loyalty.

Innovative product and services encompasses to strategies and goals that focus on both the tangible attributes, such as product leadership, and intangible attributes such as use of technology to improve operational excellence. Innovation drives customer loyalty because aims at achievement of customer satisfaction and competitive advantage through improvement of quality of products, enhancement of personal needs and brand management. Therefore, innovative product and services is a distinct explanatory variable because refers to marketing activities that ensures that customers needs, both tangible and intangible needs are continually met. Innovation therefore requires continuous assessment and transformation of products and services to ensure that the organization tailors products and services to meet individual needs and the ever changing and dynamic customers' demands.

2.2.5 Loyalty Programs

A loyalty program is a marketing program designed to enhance customer loyalty by way of giving incentives to profitable customers (Yi and Jeon, 2003). This definition points to a relationship between loyalty program-incentives and customer loyalty. Loyalty programs must therefore provide incentives that attract customers and building of customer loyalty. Uncles, Dowling and Hammond (2003) opined that these rewards can be in many forms including financial and relationship rewards. This study identified two main functions of loyalty programs: First, loyalty programs should increase sales revenue by enhancing the purchase or usage level and by increasing the range of products bought from a supplier. Secondly, they should build strong bonds between the customers and their brand (Yi and Jeon, 2003; Dowling and Hammond, 2003).

Rewards aim to enhance the relationship or bond customers have with their banks. Customers perceive relationships with their banks in terms of confidence and trust (Ferguson and Hlavinka, 2007). Rewards in a loyalty program shows the confidence and trust a firm has in its customers such that it goes further to gift the customers to show the appreciation. Since customers identify with their firms based on the confidence and trust they have in the firm's brands, any activity a firm does that will add up to their confidence and trust enhances their loyalty. Ferguson and Hlavinka (2007) also added that rewards communicate that a bank has the best interest of its customers at heart, another key to loyalty.

Day and Moorman (2010) explained that loyalty programs can lead to customer loyalty directly and indirectly. Indirect ways encompasses employee customer relations. The study held that employees in banks should be empowered and motivated well by being rewarded so that they can perform their duties better. A motivated workforce may perform optimally and thus build stronger relationships with their customers hence creating enhanced customer satisfaction. This enhanced relationship and satisfaction and thereafter attracted the customers to the bank's services and products hence making the customers more loyal. Directly, customers can be rewarded directly (Ferguson &Hlavinka, 2007).

According to Kheng, *et al.*,(2010) loyalty programs are used to retain customers. They argue that by rewarding customers, some of those who might want to live can hold on just to benefit on the

reward system and in the process remain loyal. Dowling and Uncles (1997) argued that the loyalty program can be very costly to organizations if it is not done within the right boundaries. They discuss that for a successful loyalty program to be initiated several processes must be followed. In fact they support their argument with the 80/20 rule: that 80% of the revenue the bank makes comes from 20 percent of the customers. This means the managers must first start by identifying the most profitable 20 percent customers. The right reward system should then be designed with an aim of fulfilling a certain need in offering the reward. In this way the program is likely to lead to profitable loyalty to the bank. Through this process, bank managers are able to focus on the few customers who are more loyal and profitable (Kheng, *et al.*, 2010)

Beerli *et al.* (2004) advice that banks should come up with better loyalty programs by focusing on customer needs and wants if the rewards are to remain relevant to customers. Being customer centered ensured that the rewards the bank comes up with put into consideration things that might have meaning to customers so that the customers can be motivated to remain loyal. Ferguson and Hlavinka (2007) argues that loyal customers have a tendency to purchase products and services more frequently and have a greater chance of spending more money in each visit compared to other customers.

Theoretical and empirical evidence defines loyalty programs as the part of marketing programs that target customer retention. Though related, loyalty programs differ from relationship marketing because while the later aims at the quality and enhancement of personal connection, the former focuses on retention and advancement of customer intimacy.

2.3 Summary of literature

Theoretical literature focused on customer relationship management theory which stipulated that customer loyalty is achieved through marketing programs. The theory further argues that there are three sequential steps that lead to customer intimacy/loyalty. These are product leadership which entails introduction of innovative products that add value to the customer, introducing operational excellence through primary and secondary relationship marketing and loyalty programs. Empirical literature on studies around the world has further supported the argument that Relationship marketing, innovative products and loyalty programs are key ingredients that foster customer

loyalty as they facilitate attraction and retention of customers by creating connections that will lead to customer intimacy.

Theoretical and empirical literatures give room to explain the extent to which marketing programs have facilitated in Kenyan banking industry. The study therefore investigated the extent of commitment of customers and whether their commitment is based on the value they get from the relationship between them and their banks. Investigation focusing on extent to which relationships banks introduce programs that foster customer intimacy/loyalty is important in Kenya banking industry as it will add knowledge to this area

2.4 Conceptual Framework

Based on theoretical and empirical literature, the conceptual framework in figure 2.1 was designed to explain the relationship of variables under study. The conceptual framework is based on customer relationship management theory and commitment trust theory and it shows the dependent variable is customer loyalty while marketing programs are the independent variable. The marketing programs are identified through relationship marketing, innovative products/services and loyalty programs.

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Figure 2.1: Relationship between Marketing Programs and Customer Loyalty
Source: Author

Based on theoretical and empirical literature, the conceptual framework in Figure 2.1 was designed to explain the relationship of variables under study. The conceptual framework shows the dependent variable is customer loyalty while marketing programs are the independent variable. The marketing programs are identified through relationship marketing, innovative products/services and loyalty programs. The bulleted items indicate how the variables are going to be measured in this study.

Customer Loyalty:- is the dependent variable, it is defined as the long and uninterrupted retention of the relationship by offering products and services that go beyond the customer needs but also facilitate customer satisfaction (Raab *et al.*, 2008; Beerli *et al.* 2004).

Relationship Marketing:- is an independent variable, it is defined as marketing campaigns that aim at forging or strengthening the personal connection between an organization and the customer. Relationship marketing entails making solid relationships, transforming indifferent customers to loyal ones (Berry, 1983; Abratt& Russell, 1999).

Innovative Product and Services:- is an independent variable, it is refers to designing and introduction of products and services that meet customer's needs and expectations (Siddiqi, 2011; Alam and Khokhar, 2006)

Loyalty Program:- is an independent variable, it is defined refers to marketing programs designed to enhance customer loyalty by way of giving incentives to profitable customers. Loyalty programs are differentiated from relationship marketing, Relationship marketing focuses on attraction and forging bonds while loyalty programs refer to long term oriented marketing programs aimed at retention of customers (Yi and Jeon, 2003; Dowling and Hammond, 2003).

CHAPTER THREE

METHODOLOGY

3.1.Introduction

This chapter presented the research design and methodology that will be used to arrive to the desired evidence being collected. The chapter stipulated the research design and target population used in the study. Thereafter, the chapter presented the sample and sampling methods, data collection and analysis methods used in the investigation

3.2.Research Design

A research design is a plan of work explaining the strategy a researcher borrows to collect adequate evidence that addressed the research problem (Churchill & Iacobucci, 2009). De Vaus (2001) argued that research designs can be classified as either descriptive or explorative. Descriptive designs aim to describe events and basically answer the question 'what'. Exploratory designs on the other hand aims to explain why the events described happen in the manner they occur. They aim to answer the question 'how'. De Vaus (2001) further recognized several designs which can be sought by researchers to achieve their objectives: experiments, case studies and surveys.

This study adopted quantitative research design as it aimed at analyzing the relationship between relationship marketing, innovative products and services and loyalty programs drive customer loyalty in Kenyan banks. Primary data was collected from commercial banks customers using two stage sampling method. Quantitative analysis included the use of exploratory factor analysis to the set of measured variables, itemized in the questionnaire (see appendix III) related to each theoretical constructs that measures customer loyalty and each of the variable measuring relationship marketing programs. Descriptive statistical analysis and regression analysis were used as appropriate to address the objectives specified in chapter 1

Mugenda and Mugenda (2003) describe a cross section design to be involving the collection of data from a population at a given single point in time using survey. According to Mitchell and Jolley (2010), a survey is a way of collecting a lot of information about people's attitudes, beliefs and behaviors on a large sample within a short time and at an affordable cost. This definition present several key issues that define a survey design: first is that a survey design basically investigates people's attitudes, beliefs and behaviors. This means that surveys are characteristic of aiming to explain people's subjective relationship to their environment. The second aspect is that surveys handle large samples.

Shuttleworth (2008) posited that survey research design form a valuable tool for assessing opinions and trends. Additionally, Creswell (2003, p.153) describes a survey design as a "*quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population*". Bryman and Bell (2003) consider a cross-section survey design as a quantitative or quantifiable way of collecting information on two or more variables and on more than one case and at a single point in time with an aim of detecting patterns of association or behavior. The survey is cross-section because it collected data at a single point in time (Bryman and Bell, 2003). In this regard, cross-section survey was deemed relevant because the study aims to investigate the sample at a single point in time.

3.3.Target Population

Kenya banking sector is composed of 43 commercial banks, 1 mortgage institution and 6 deposit taking micro-financing institutions that are officially recognized by Central Bank of Kenya. According to CBK (2013) held that there are slightly over 15 million customer deposit accounts and over 2 million loan accounts. This study focused on customer loyalty among commercial banks in Kenya. Therefore, the target population for this research is total number of bank customers in the country (Mugenda and Mugenda, 2003).

Sampling Method

For the purpose of this investigation two stage sampling method was utilized, this included purposive sampling and Stratified-random sampling. The succeeding subsections explained the sampling techniques used in this study. According to Mugenda and Mugenda (2003), purposive sampling may be used if it enhances the validity of the research. Six large commercial banks were identified and used in the study due

to the sensitive nature of the study implications, the names of the banks were withheld as confidentiality was promised during data collection. Large commercial banks are defined as banks with at least 5 percent market share, large banks were purposively selected because they have elaborate relationship marketing and customer loyalty programs for a substantive period of time.

In addition, commercial banks within Nairobi were selected purposively because they encounter numerous business activities and high rate of bank use. Given the demographical composition of Nairobi residence, the sampling frame was deemed as an appropriate for the purpose of the study. Second, Stratified Random sampling was used such that each large bank was identified as a stratum. Section 3.4.1 explains determination of sampling size and the procedure used in conducting stratified-random sampling.

Sampling size and procedure

As noted, CBK (2013) estimates that the population size of bank customers are approximately 15, 000,000. The selection of right sampling size was guided by Nasiuma (2000) who asserted that:

$$n = \frac{NC^2}{C^2 + (N-1)e^2} \quad \text{Eqn (3.1)}$$

Where N represents Target population: Estimated as total number of account holders in commercial banks in Kenya.

n represents sample size: This is the number of respondent sampled for the purpose of research

C is the coefficient of variation:

e is the standard error (margin of error).

Nasiuma (2000) hold that coefficient of variation and margin of error are important in determining the degree of accuracy and therefore enhance reliability and sample quality. The recommended coefficient of variation is 30 percent and for a large population the margin of error should be less than 5 percent. This study used a coefficient variation of 30 percent and a margin of error (**e**) of 2.5 percent. Therefore the sample size (**n**) is estimated as:

$$n = \frac{15,000,000 \times 0.3^2}{0.3^2 + (15,000,000 - 1)0.025^2} = 160$$

After identification the sample frame and target commercial banks, stratified-random sampling was used to collect data from customers (respondents). Stratified sampling involves the researcher grouping the population into different subgroups called strata and then chooses randomly respondents from the strata (Babbie, 2010). Bryman and Bell (2003) argued that stratified sampling is vital when the population is heterogeneous. Levy and Lemeshow (2008) also discuss that stratified sampling has high statistical precision when compared to simple random sampling since variations within strata are small compared to variations within the whole population.

This justifies the small sample in comparison to the population. In Kenya, the four large banks apply different strategy and therefore attract different types of customers. To ensure that a representative sample was collected, each bank was identified as a stratum. Therefore, the study had four strata. Thereafter, random sampling was used to collect data from each of the stratum. According to Mugenda and Mugenda (2003), size of the population in each stratum = { n_1, n_2, n_3, \dots } should add up to the target population such that $n_1 + n_2 + n_3 \dots = N$. The sampling formula is given as: $n_i = \frac{n}{N} \times S$ where:

n_i :- is the number of respondents in a given target population stratum i

N:- Total number of respondents in the sample frame

S:- Sample size

Therefore, based on the formula above, the sampling ratio (n/N) adopted is 1 to 4. Due to logistical difficulty of establishing number of customers per the branches sampled, and given the relatively large number of customer in large banks then it was logical and acceptable to assume that the sampling ratio was equal across banks.

Responds were identified as Walk-in Customers in the respective banks who were willing to be interviewed. The main assumption is that during the period of the study, customer arrival was random. Table 3.1 summarizes sampling size and procedure adopted:

Table 3.1: Sampling size and Procedure

Commercial banks Selected (Purposive Sampling)	Sample per bank (Random Sampling)	Sample size (Stratified random sampling)
Large Banks Market Share >5 percent	$\frac{1}{4} \times 160 \approx 40$	$40 \times 4 \approx 160$

3.4.Data Collection Instruments

The study aimed at collection of primary data that addressed the gaps identified in the literature review. Primary data was collected using a structured questionnaire. Creswell (2003) considered a questionnaire as best tool when using survey designs. According to Babbie (2010), a questionnaire provides a good tool for collecting data from respondents whose schedules cannot be depended upon for an interview schedule or a focus group discussion. A questionnaire also offers better tool for respondents who are difficult to locate. Analysis of structured questionnaire is also easy because the questions are customized to choices the researcher expects. The

questionnaires were self-administered by willing customers. Data was collected within two weeks during banks opening hours.

3.5. Reliability and Validity

Reliability is “the extent to which results are consistent over time and an accurate representation of the total population under study” (Joppe, 2000; p. 1). To ensure reliability, a total of 20 respondents were used as pilot study. The questionnaire was revised accordingly to ensure that the question effectively capture the variables of interest. Notably, the results obtained from the pilot study were excluded from the main sample. Validity is the extent to which an instrument measures what it purports to measure (Joppe, 2000). During the piloting, the researcher ensured that the questions designed to collect data collects what they should. This was achieved by revising the questions to make them more clear, less ambiguous and easy to respond to.

In addition, Cronbach alpha test was used to test the reliability of the questionnaire. According to Serakan (2005), Cronbach Alpha tests reliability of the data collection instrument by checking inter item consistency, As a rule of thumb, items with Cronbach alpha score of less than 0.7 are inconsistent. For the purpose of this study, items with Cronbach alpha scores less than 0.7 were considered poor and eliminated. The researcher also provided multiple choices from which respondents can choose. This ensured that the respondents only answer what is expected of them (Babbie, 2010).

3.6. Data Analysis

Therefore, the following procedure was used in data analysis. First, the main variable of interest namely customer loyalty, innovative products, loyalty programs and relationship marketing were estimated as average of itemized questions as they appear in respective sections in the structured questionnaire (see appendix II). Ordinal measurement was used to capture how each customer perceived and ranked theoretical variables used in this study. Notably, all questions used to capture ordinal scores were positively phrased and respondent asked to rank how they agree to each item. Likert scale was constructed using the following criteria 1 represented ‘Strongly Disagree’ (SD) 2 represented ‘Disagree’ (D) , 3 represented ‘Neutral’ (N) 4 represented ‘Agree’ (A) and 5

represented ‘Strongly Agree (SA). In this regard, the ordinal scale was converted into continuous variable for further quantitative analysis. Conversion of theoretical variables involved estimating the Average scores.

Secondly, descriptive statistics including mean, standard deviation and variance were estimated. Descriptive analysis of demographical factors was included in order to understand the composition of the sample data. In addition, ANOVA test was used to compare means of the theoretical variables of interest across the four banks (Mugenda and Mugenda, 2003; Gujarati, 2002).

Thereafter, ordinary Least Square regression model was used to estimate the relationship between customer loyalty (dependent variable) against relationship marketing, innovative products and loyalty program (independent variables). Demographic variables which include age, gender, level of education and marital status were included as controls. In addition, on apriori grounds, the length of period a customer has been banking and frequency of transaction were identified as key variables that determine customer loyalty through habit formation and therefore might not necessarily be caused by existing marketing programs (Hiam 2009; Kheng *et al.*, 2010). In this regard, these two variables were introduced as standalone variables to control non-marketing factors that influence customer loyalty. Therefore, the estimated model is given as follows:

$$ACL_i = \alpha + \beta_1 ARM_i + \beta_2 AIP_i + \beta_3 ALP_i + \beta_4 F_i + \beta_5 T_i + \beta_6 X_i + \varepsilon_i \quad \text{Eqn (3.2)}$$

Where ACL represents average customer loyalty scores

ARM_i Represents average customer loyalty scores for individual i

AIP_i Represents average Innovative Product scores for individual i

ALP_i Represents average loyalty program scores for individual i

F_i Represents average frequency of transaction for individual i

T_i Represents length (time) customer i has been with the bank

X_i Represents control demographic variables which include Age, gender, level of education and marital status for individual i

To address the first objective descriptive statistics was used to measure the scores and distribution customer loyalty. The mean, standard deviation and frequency distribution of customer loyalty was estimated and analyzed to find out the extent to which customers are satisfied and therefore dedicated to their bank of choice.

To address objectives two three and four, the coefficients of relationship marketing, innovative products and loyalty programs were estimated and interpreted accordingly. Both signage and magnitude were applied in the analysis and interpretation. Five percent (or alpha of 0.025) level of significance was used for reference (Gujarati, 2002).

Diagnostic tests including adjusted R- Square, F statistics were used to show the reliability and predictive power of the model. Ramsey reset test was used to test whether the model was correctly specified, the Ramsey-Reset tests' null hypothesis state there is no omitted variable or the model is correctly specified. Breusch-Pagan test was used to test for Heteroskedasticity, the standard null hypothesis for Breusch-Pagan test is: 'No Heteroskedasticity'. Variance inflation factor (VIF) was used to test for multi-collinearity, low mean score indicate absence of multi-collinearity (Gujarati, 2002).

CHAPTER FOUR

RESEARCH FINDINGS

4.1 Introduction

This chapter presented the results and findings of the study. This chapter is organized as follows: First, descriptive analysis and general information are presented in the first section. The second section is organized thematically based on each of the research objectives provided in chapter one.

4.2 Descriptive statistics

Descriptive statistics is vital as helps in revealing information about the composition and distribution of data used in the analysis (Creswell, 2006). Firstly, primary data from structured questionnaires was used for analysis and secondary data from published reports and documents used in the succeeding discussion. Data was collected from four large banks, because two of the large banks selected had strict policy against collecting data from their customers and were therefore excluded due to ethical considerations. In this regard, 40 questionnaires were distributed to for banks to make a total of 160 questionnaires. All questionnaires were returned. However, up to 45 were completely excluded. Therefore, the sample used for analysis was reduced to 115. The following figures provide summary of key demographic variables used in the study.

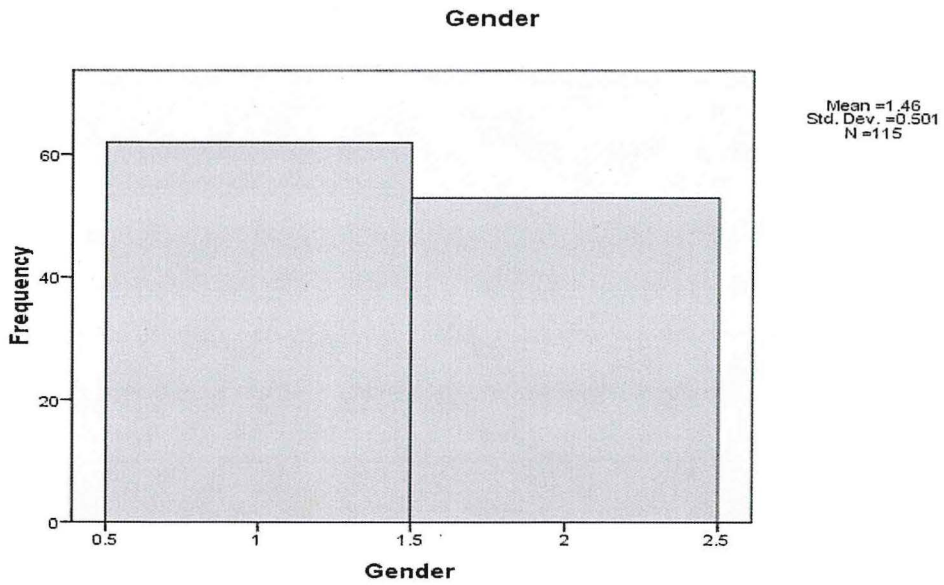


Figure 4.1: Histogram showing the distribution of respondents across gender

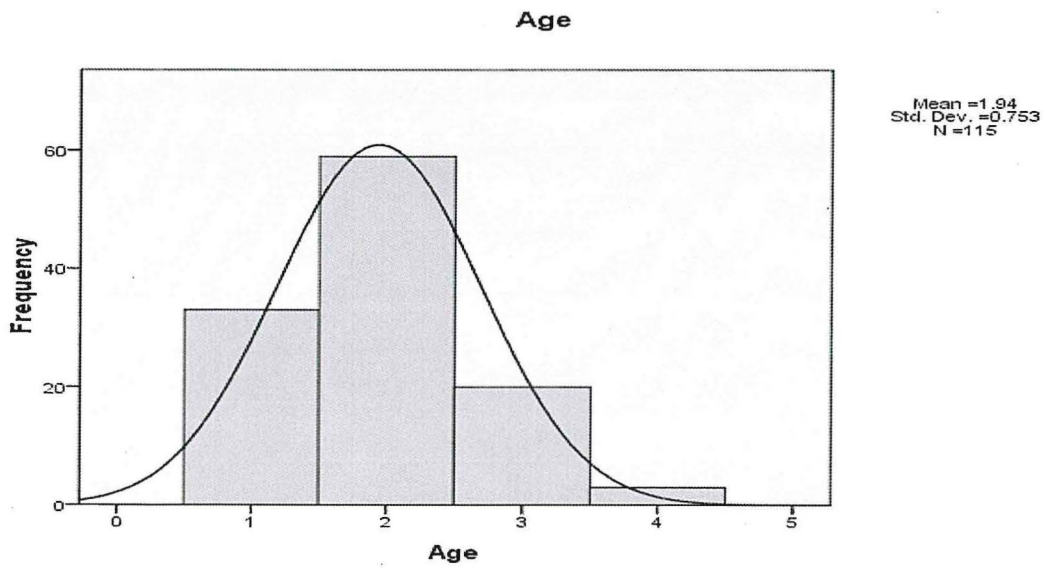


Figure 4.2: Histogram showing the distribution of respondents across age

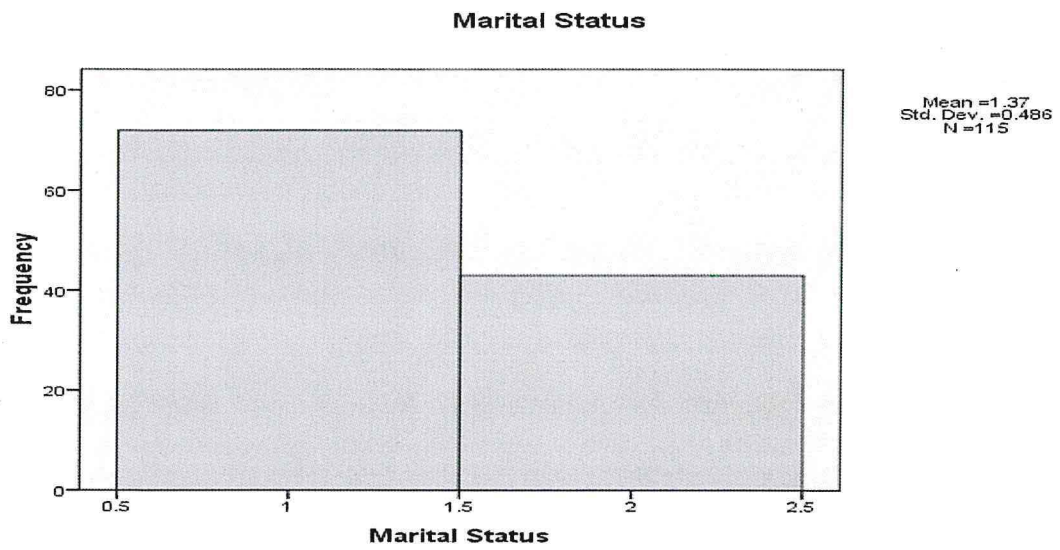


Figure 4.3: Histogram showing the distribution across marital Status

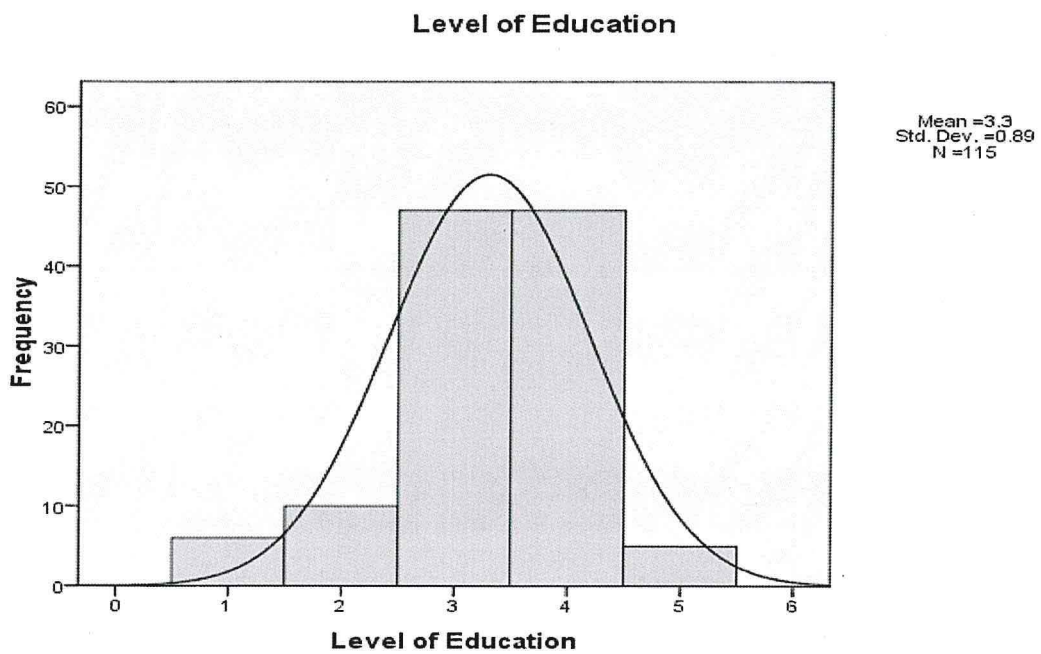


Figure 4.4: Histogram showing the distribution across level of education

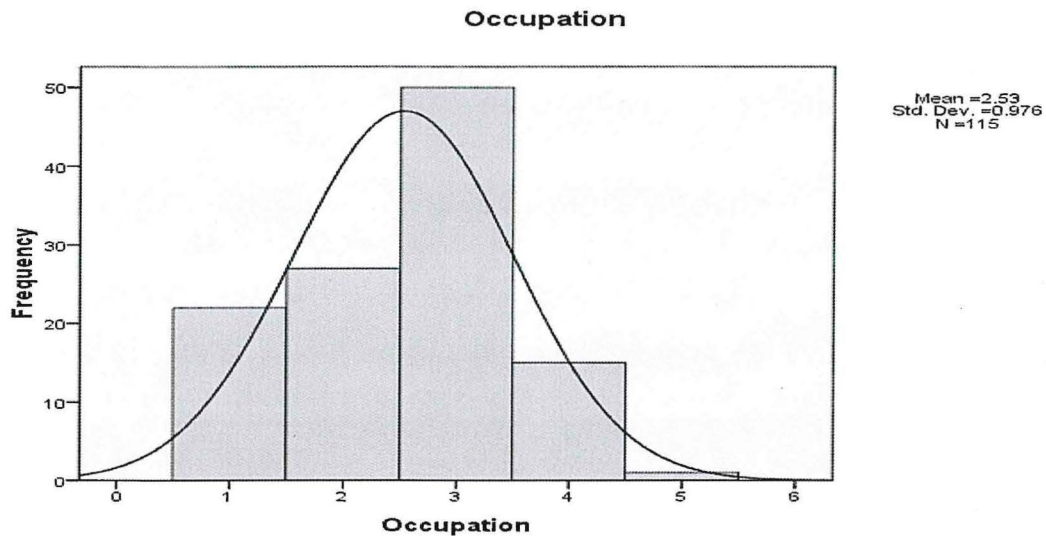


Figure 4.5: Histogram showing the distribution across occupation

Figure 4.1 through Figure 4.5 presented the distributions of respondents across key demographic measures. Figure 4.1 shows that there were slightly more male respondents at 54 percent compared to female respondents at 46 percent. As presented in Figure 4.2, majority of respondents were aged between 26 years to 35 years and 62 percent of the respondents were married. Figure 4.3 shows that majority of the respondent were married (as represented by nominal value 1). Figure 4.4 and 4.5 show that level of education and occupation variables were normally distributed around the mean. 40.9 percent of the respondents have certificate/Diploma and 40.9 percent have a degree approximately 13 percent of the respondent had 'O levels' or below.

On the other hand, 43.5 percent and 23.5 percent of the respondents were employed in the private sector and government sector respectively. 19.1 percent of the respondents were self-employed and only 13.1 percent were unemployed. Demographic distribution implies that the distribution across respondent was diverse with regards to age, marital status and education. Therefore, we can assert that the data used for analysis fairly represented different types of customers based on age, education.

Descriptive analysis of theoretical variables adopted in this study was conducted. First, Customer loyalty was measured using average scores of six related items. All questions were positively phrased and respondents asked to rate the truth value of each items. Table 4.1 shows the distribution of each customer loyalty item, total distributions.

Table 4.1: Distribution of scores across items used to measure Customer Loyalty

	SD %	D %	N %	A %	SA %	Mean	STD DEV
My Bank offers me excellent service	0.7	8.7	13.9	40	35.7	3.99	1.00
I feel satisfied banking here	4.3	6.1	15.7	34.8	39.1	3.98	1.09
From the fees I pay I get value for my money	5.2	7.8	20.9	39.1	24.3	3.71	1.09
The bank offers me wide variety of products to choose from	2.6	8.7	26.1	47.8	14.8	3.83	1.17
I have a working relationship with a customer advisor whom I call on for banking services	1.2	0.9	21.7	40.9	29.0	3.90	1.01
The bank rewards its loyal customers by offering them preferential treatment and appreciation	0.9	7.0	11.2	44.9	30.1	3.99	0.99
Average Customer Loyalty scores	1.45	6.53	18.25	41.2	28.8	3.89	0.89

Source: Author

The results in Table 4.1 show that the mean or average customer loyalty score was 3.89 with a standard deviation of 0.89. This implies that respondents loyalty scores were higher than average. For example, more than 75 percent of the respondents ‘agreed’ or ‘strongly agreed’ to the question “My Bank offers me excellent service’. In addition, up to 69 percent of the respondents agreed that they have a working relationship with their bank. Figure 4.6 show the distribution of average customer loyalty.



Figure 4.6: Average Customer Loyalty Scores' Distribution

Source: Author

The distribution in figure 4.6 shows that the distribution was skewed towards high scores which are associated with positive feedback. This reveals that generally, there is strong reason to support the argument that the individual sampled are generally loyal to their respective banks.

Second, Relationship Marketing was measured using average scores of six RM related items. All questions were positively phrased and respondents asked to rate the truth value of each item. Table 4.2 shows the distribution of scores across items used to measure relationship marketing.

Table 4.2: Distribution of scores across items used to measure Relationship Marketing

	SD %	D %	N %	A %	SA %	Mean	STD DEV
I feel connected to the bank because they understand my needs?	0.00	1.74	15.65	49.57	33.04	4.13	0.74
I am satisfied with the relationship with my banker?	0.00	1.74	20.87	34.78	42.61	4.18	0.82
The bank staff are genuinely concerned with my welfare	2.61	10.4	15.65	45.22	26.09	3.81	1.02
In case of a problem/query the Bank responds in a timely manner	0.00	2.00	11.86	45.22	40.87	4.25	0.73
I completely trust my bank and believe that my information is safe	0.00	4.35	13.04	34.78	47.83	4.26	0.84
I am happy with the level of customer service that the bank offers me	0.00	4.35	29.5	45.22	20.87	3.83	0.81
Average Relationship Marketing scores	0.44	4.10	17.77	42.47	35.22	4.01	0.70

Source: Author

Table 4.2 reveals that majority of respondents gave positive feedback on relationship marketing issues; the average mean score across the six items is 4.01 with a standard deviation of 0.7. This means that in general, customers were happy with the level of customer services and relationship marketing efforts employed by commercial banks. It is important to note that up to 82 percent of the respondent 'agreed' or 'strongly agreed' to the statement "I completely trust my bank and believe that my information is safe." Figure 4.7 shows the average relationship marketing scores distribution.

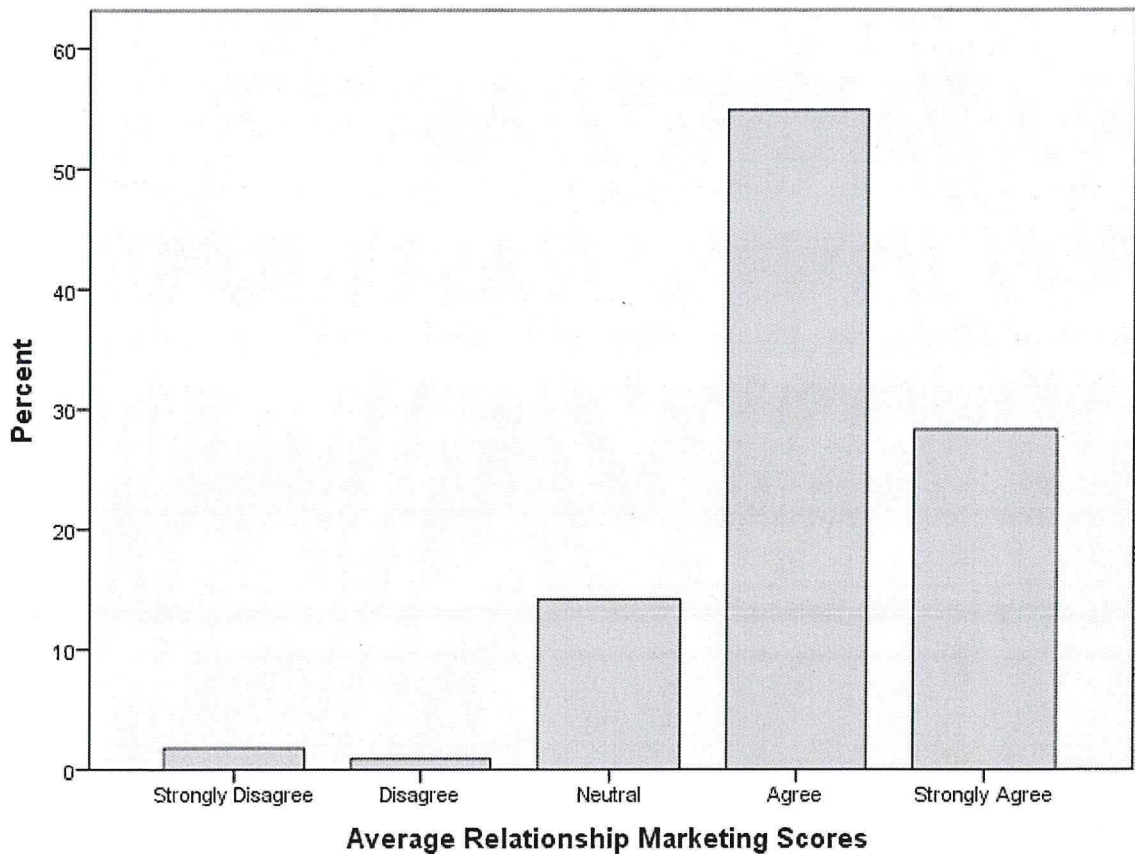


Figure 4.7: Average Relationship Marketing Scores' Distribution

Source: Author

Figure 4.7 shows that relationship marketing scores' distribution is skewed to the right. In this regard, we can confirm that majority of respondents were on content with their relationship with respective banks. It's important to note that respondents seem to have confidence with their banks as they generally agreed that the bank is genuinely concerned about service delivery, customers' welfare, security and safety.

Third, Innovative Product was used to capture marketing program activities that are associated with product leadership. The variable measured using average scores of eight related items. All questions were positively phrased and respondents asked to rate the truth value of each item. Table 4.3 shows the distribution of 8 items used to measure innovative products.

Table 4.3: Distribution of scores across items used to measure Innovative Products

	SD %	D %	N %	A %	SA %	Mean	STD DEV
The bank has superior terms of lending than competitors	0.88	1.77	20.35	40.71	36.28	4.09	0.84
The bank has low lending interest compared to competitor banks	0.88	0.00	23.89	51.33	23.89	3.97	0.75
Generally, my bank products/services have additional features and value?	0.88	1.50	14.43	45.13	38.05	4.19	0.77
The products/services offered by the bank are of high quality	0.88	3.54	19.47	34.51	41.59	4.12	0.9
The products/services offered by the bank generally meet my needs and expectations	0.88	3.54	24.78	39.82	30.97	3.96	0.89
New products/services offered by the bank are centered on customers' needs	0.88	8.77	28.95	43.86	17.54	3.68	0.9
The products are reliable and simpler to use and manage	0.88	13.2	31.58	28.95	25.44	3.64	1.03
The products offered by the bank are unique (do not have matching imitations or substitutes)	7.89	16.6	46.49	19.30	9.65	3.06	1.03
Average innovative products scores	1.76	6.12	26.24	37.95	27.93	3.68	0.809

Source: Author

Table 4.3 shows that majority of respondents either agreed or strongly agreed with the general view that their banks offer innovative products and services. However, compared to other marketing programs, Innovative products had the least average mean score across the eight items at 3.68 with a standard deviation of 0.81. Notably, majority of respondents were 'neutral' when asked the question 'products offered by the bank are unique (do not have matching imitations or substitutes)'. This is expected and further supports the view that bank product and services can easily be imitated. Figure 4.8 results show the distribution of average innovative products scores

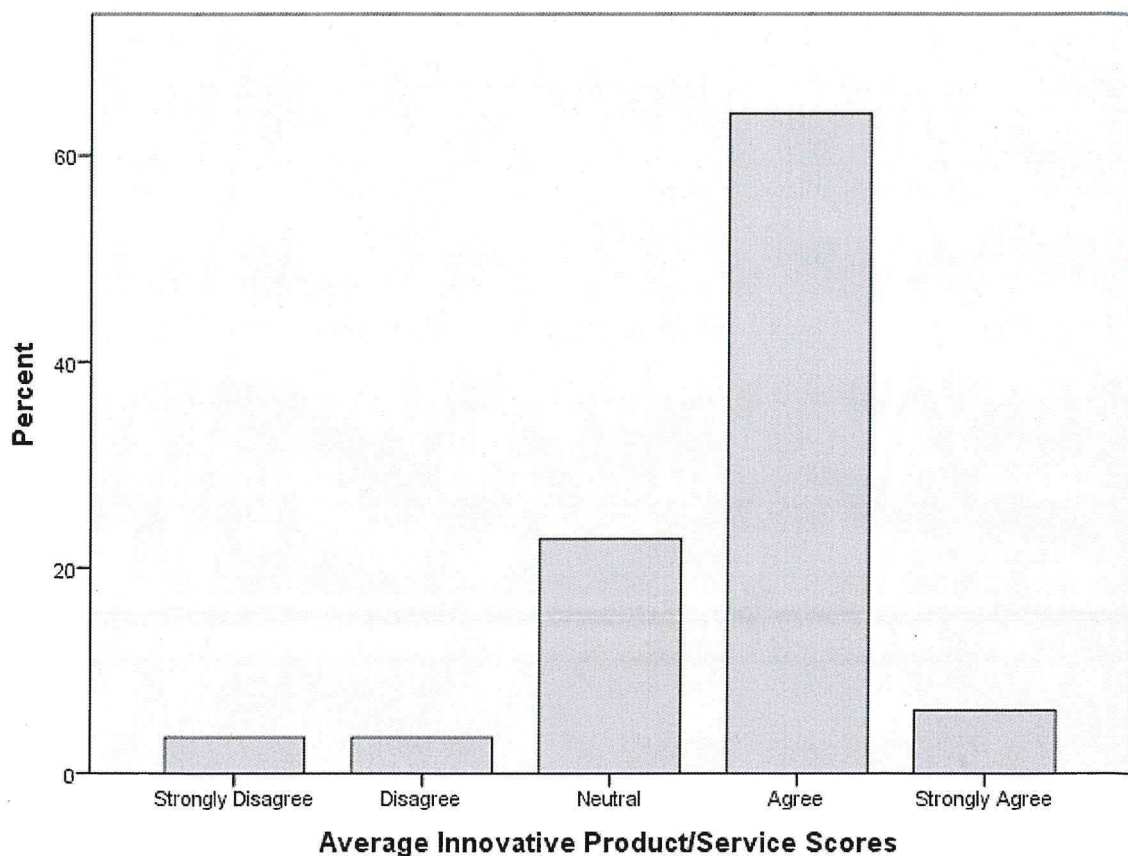


Figure 4.8: Average Innovative Products Scores' Distribution
Source: Author

Figure 4.8 results show that average innovative products scores increased as scores changed from strongly disagree to strongly agree. This means that on average respondents agreed that banks has innovative products, however, compared to customer loyalty and RM scores, innovative product scores is slightly lower than other key variables. Notably, despite having low scores, a few respondents 'strongly disagreed' that their respective commercial banks have innovative products.

Fourth, Loyalty Programs aimed at measuring customers' perceptions on overt programs, such as marathon heart runs and other programs aimed at strengthening customer loyalty. Respondents were asked eight questions measuring different aspects of the loyalty programs and their scores tabulated. Table 4.4 shows the distribution of scores across each of the question.

Table 4.4: Distribution of scores across items used to measure Loyalty Programs

	SD %	D %	N %	A %	SA %	Mean	STD
This bank offers me more benefits as a loyal customer	4.39	13.16	33.33	32.46	16.67	3.44	1.06
The bank offers me rewards and other benefits as an active and long time customer	2.70	2.70	45.05	26.13	23.41	3.64	0.96
I am committed to this bank because of as premium account holder I am given special privileges	1.79	6.25	25.0	35.71	31.25	3.88	0.98
Loyalty programs consider customer needs hence making them feel wanted in this bank	3.54	2.65	24.78	39.82	29.20	3.88	0.98
The more money you save or bank, the more this bank offers incentives and/or provide special treatment	1.77	6.19	23.01	38.94	30.09	3.89	0.97
I am committed to this bank because of its advertising, marketing and promotion	1.77	13.27	19.47	43.36	22.12	3.7	1.01
I am committed to this bank because of its involvement in Corporate Social Responsibility e.g. paying school fees, Marathon Heart Run etc.	1.80	9.01	15.32	37.84	36.04	3.9	1.02
I am committed to this bank because of its involvement in marathon heart and run	1.80	7.21	25.23	36.94	28.83	3.77	0.92
Average Loyalty programs scores	2.45	7.56	26.40	36.40	27.20	3.89	0.46

Source: Author

Table 4.4 shows that majority of respondents reacted positively to the listed items. On average, the percentage score of respondents who agreed and strongly agreed is 36.4 percent and 27.2 percent respectively compared to those who strongly disagreed or disagreed at 2.45 percent and 7.65 percent respectively. Notably relative to customer loyalty, relationship marketing and innovative product scores a significant number of respondent were impartial Table 4.4 confirmed that on average, 26.40 percent of the respondent were neutral. These results reveal that while loyalty programs were generally positively, a significant number of respondent were neutral. For example, up to 45 percent of respondent were neutral to the statement ‘The bank rewards and other benefits as an active and long time customer’. Figure 4.9 shows the distribution of loyalty program scores.

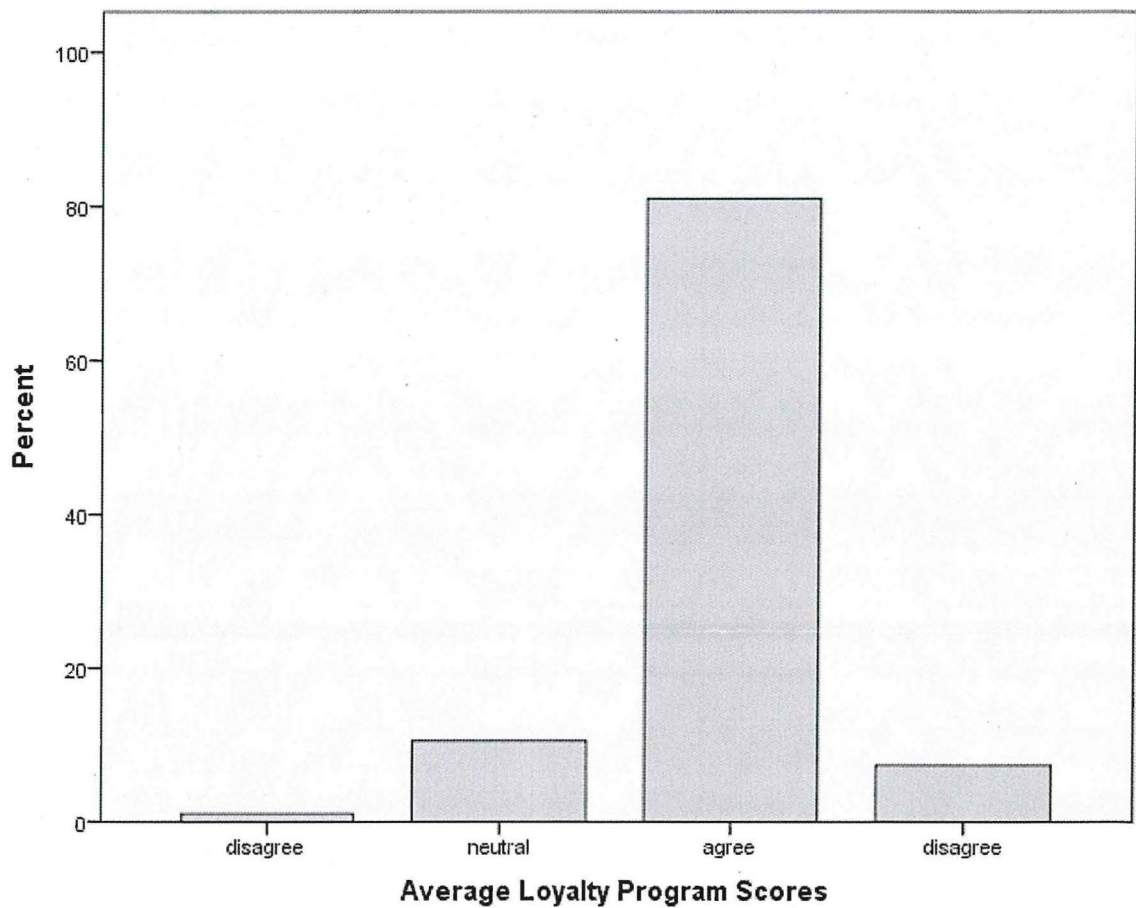


Figure 4.9: Average Loyalty Program Scores' Distribution

Source: Author

The results in Figure 4.9 show that average loyalty programs' distribution was skewed to the right. However, the distribution confirms the view that the frequency of neutral scores was significantly high when compared to other variables used to measure marketing program.

Lastly, descriptive analysis included correlation analysis to evaluate the nature of association among key variables. Table 4.5 shows correlation coefficients for average customer loyalty scores (ACL), average relationship marketing scores (ARM), average innovative product (AIP) scores and average loyalty programs scores (ALP).

Table 4.5: Correlation between Customer Loyalty, Relationship Marketing, Innovative Products and Loyalty Programs

	ACL	ARM	AIP	ALP
ACL	1			
ARM	+0.7128	1		
AIP	+0.7011	+0.604	1	
ALP	+0.6126	+0.6117	+0.7264	1

Source: Author

The results in Table 4.5 show that overall, the correlation coefficient ranged from positive 0.60 to 0.72. This implies that there is a strong positive correlation between the dependent variable namely customer loyalty and other independent variables namely relationship marketing, innovative products and loyalty programs. However, according to (Gujarati, 2002) correlation analysis only captures association between variables but does not measure causal relationship between dependent and independent variables. These results therefore imply that there is a strong association between customer loyalty, relationship marketing, Innovative product and loyalty programs.

4.3 Empirical findings and interpretation

This section presented result findings and interpretation of the results. The results are presented thematically based on each objective.

4.3.1 Comparison of Customer satisfaction Across Commercial Banking

The first objective sought to identify the extent to which customers' loyalty programs differ across selected banks for the study in Kenya. To address this objective, data from four sampled banks was used. One-way ANOVA was used to evaluate whether there is a significant difference in perception of the five theoretical variables across the sampled banks. In addition to marketing program variables and customer loyalty, average banking services was include to evaluate how customers rank banking services across banks. Banking services was measures as using three items which include Average loan scores; Average salary scores and Average credit card services scores. Therefore, Table 4.6 shows the one-Way ANOVA results.

Table 4.6: ANOVA Analysis: Difference in Average Scores across Banks

			Sum of Squares	Df.	Mean Square	F	Sig.
Average relationship mkting * Bank	Between Groups	(Combined)	2.068	3	.689	1.420	.241
	Within Groups		52.916	109	.485		
	Total		54.984	112			
Average(CL) * Bank	Between Groups	(Combined)	4.225	3	1.408	2.203	.092
	Within Groups		67.773	106	.639		
	Total		71.998	109			
Average innovative products * Bank	Between Groups	(Combined)	14.511	3	4.837	8.952	.000
	Within Groups		59.435	110	.540		
	Total		73.945	113			
Average loyalty programs * Bank	Between Groups	(Combined)	.152	3	.051	.229	.876
	Within Groups		20.099	91	.221		
	Total		20.250	94			
Average Banking Services* Bank	Between Groups	(Combined)	3.285	2	1.0952	0.74	0.534
	Within Groups		92.032	62	1.4844		
	Total		95.319	65			

Source: Author

The results in Table 4.6 show that F-statistic for overall customer loyalty scores across bank was 2.203 with p-value of 0.092. Therefore, there is a significant difference in the ranking of customer loyalty across the four banks at 10 percent significance level. Further scrutiny of the results in Table 4.6 shows that innovative product was significantly different with a F-Statistics of 8.952 and P-Value of 0.00. However, there was no significant difference in ranking of Relationship Marketing, Loyalty Programs and Banking services across sampled banks at 10 percent significance level.

4.3.2 Customer loyalty and Relationship Marketing

The second, third and fourth objectives sought to determine whether relationship marketing influences customer loyalty. Table 4.7 shows the regression model results and relevant diagnostic tests.

Table 4.7: Regression Model Results			
Diagnostic Tests			
		Statistic	P-Value
Adjusted R Square		0.634	
F-Statistic (df, n)	(3, 85)	23.77	0.000
Breusch-Pagan (Heteroskedasticity test)		0.19	0.664
Ramsey Reset Test (Omitted Variables)		0.73	0.538
Mean VIF (Multi-collinearity test)		2.04	
Regression Model: Dependent Variable Average Customer loyalty			
	Coefficients	t-statistics	P-Value
Constant	-1.688	-3.83	0.000
Average Relationship Marketing	0.667	4.52	0.000
Average Innovative Products	0.398	2.6	0.011
Average Loyalty Programs	0.354	3.27	0.002
Age	0.087	0.98	0.329
Gender	-0.129	-1.30	0.190
Level of Education	0.00351	0.05	0.96
Frequency of Transaction	-0.00576	-0.11	0.909
Marital Status	-0.0039	-0.04	0.971
Time with the Bank	0.0415	0.75	0.454

Source: Author

Firstly, diagnostic tests show that the regression model can be relied on for analysis. Adjusted R square is 0.634 which means that 63 percent of the variability of the dependent variable is explained within the model. F statistic is 23.77 with probability value 0.000 this means that the null hypothesis that all coefficients are not different from zero is rejected. This implies that the variables jointly explain variations in customer loyalty programs.

Breusch-Pagan test was used to test for Heteroskedasticity. The results show that the null hypothesis of 'no Heteroskedasticity' was not rejected meaning that the ordinary least squares

(OLS) coefficients are not biased. The Ramsey reset test and Variance Inflation Factor (VIF) statistics show that the model was correctly specified and there is no multi-collinearity. Therefore, in summary, diagnostic tests showed that the OLS regression model had predictive powers, was reliable and all coefficients are nonbiased and efficient.

The second objective sought to investigate the relationship between Customer Loyalty and Relationship Marketing. Significance, magnitude and the sign of the coefficient of Relationship Marketing was used to address the second objective. The regression results presented in Table 4.7 show that the coefficient of Relationship Marketing is significant at 1 percent level of significance. Second, the coefficient of RM is +0.667. This means that increase in one average relationship marketing score increases average customer loyalty by 0.667 unit scores. Therefore, we can conclude that relationship marketing programs positively influences customer loyalty.

4.3.3 Customer loyalty and Innovative Products

The third objective sought to investigate the relationship between Customer Loyalty and Innovative Products/Services. Significance, magnitude and the sign of the coefficient of Innovative Products/Services was used to evaluate the influence of product innovation on Customer Loyalty. The results in Table 4.7 (presented in Section 4.3.2) were used for analysis. The regression results show that Innovative Products/Services are significant at 5 percent level of significance. Second, the coefficient of innovative products is +0.390. This means that increase in average innovative product by one unit score increases average customer loyalty by approximately 0.4 unit scores. Therefore, we can conclude that product innovation positively influences customer loyalty.

4.3.4 Customer loyalty and Loyalty Programs

The fourth objective sought to determine whether loyalty programs influences customer loyalty. . Significance, magnitude and the sign of the coefficient of Loyalty Programs was used to evaluate the nature of relationship between the specified dependent and independent variable. The results in Table 4.7 (presented in Section 4.3.2) were used for analysis. The regression results show that Loyalty Program coefficient is significant at 1 percent level of significance. Second, the coefficient of Loyalty Programs is +0.354. This means that increase in average innovative product by one unit

score increases average customer loyalty by approximately 0.35 unit scores. Therefore, we can conclude that Loyalty Programs positively influences customer loyalty.

4.4 Discussion

First, the correlation results presented in table 4.6 confirms that there is a strong correlation between customer loyalty, relationship marketing, innovative products and loyalty programs. The regression results confirm that relationship marketing programs, loyalty programs and innovative products positively influence customer loyalty. The adjusted R square of 65 percent shows that the three independent variables are jointly significant in explaining customer loyalty. In addition, the positive signage of all the three independent variable conforms to theoretical and empirical literature. It is also worth mentioning that descriptive statistics results also support the above findings. The results that on average, the mean scores for all three independent variables were above 3.5 which imply that the Commercial Banks Identified have employed strategies that employ various types of identified marketing activities.

The first objective compared ranking of Customer Loyalty scores, Marketing Programs and Banking services scores across the four sampled banks. Notably, the results show that Customer Loyalty scores were significantly different across the four banks. This findings supports the supposition that focus on Customer Loyalty may provide banks with a strategy that leads to brand creation and may be a key driver in improving an individual banks competitive edge.

The second objective evaluated the influence of Relationship Marketing on Customer Loyalty. Relationship Marketing was identified as the most important determinant of customer loyalty. The findings above support both theoretical and empirical literature. Significance of the relationship marketing program as a determinant of customer loyalty is argued by commitment-trust theory which argues that building a long lasting bond and/or mutual benefiting partnership with customers is the most important function of relationship marketing programs (Morgan and Hunt, 1984). Moreover, the study's findings support the findings by majority of empirical literature which identifies relationship marketing as an important determinant of customer loyalty (Berry 1983; Abratt & Russell, 1999; Wright, 2002; Gringos, 1994; De Matos *et al.*, 2009).

However, it is important to note that relationship marketing scores did not differ across sampled banks. One of the possible explanations is that only large banks were sampled. Generally, banking institutions with similar level of profitability and market share may employ similar Relationship Marketing strategies. This notwithstanding, it is evident that Relationship Marketing activities that directed towards developing relationship exchanges such as credibility, trust, security and safety are important in facilitating Customer Loyalty (Morgan & Hunt, 1994;

Thirdly, Innovative Products/Services was found to be the second most significant determinant of customer loyalty. This confirms the Jahanshahi *et al.*, (2011) argument that if the competition offers more innovative products and services, satisfaction may not necessarily lead to loyalty. Evidently, one of the major differences across the four commercial banks is the mean of innovative products. The ANOVA results, presented in Table 4.6, show that there is no significant difference in means scores for relationship marketing, Average banking services scores and loyalty programs across the four banks. However, there is a significant difference in mean scores for Customer Loyalty and Innovative Products/Services across banks. The results therefore support the supposition that technical product functionality and reliability are key features that the innovative product must have for it to create the desired satisfaction that will drive loyalty. This might be an indication that product differentiation is a fundamental competitive driver among Kenyan commercial banks (Bhattacharya & Singh, 2008; Raich, 2008; Neema *et al.*, 2011).

Lastly, commercial banks should invest in loyalty programs as customers are more loyal to commercial banks with loyalty programs such as corporate social responsibility programs. It is important to note that the coefficient of Loyalty Programs was the smallest implying that relative to other marketing Programs, Loyalty Programs had the least influence. This argument is further supported by the fact that a significant number of respondent, on average, were indifferent about queries concerning Loyalty Program (see Table 4.4). This may be an indication that Customers in general do not understand Loyalty Programs offered by Banks. In this regard, commercial banks should come up with better loyalty programs by focusing on customer needs and wants if the rewards are to remain relevant to customers (Beerli *et al.*, 2004).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

This study investigated the impact of Marketing Programs on customer loyalty among commercial banks in Kenya. Theoretical and Empirical literature was used to identify three distinct Marketing Programs which were used as Independent variables. Cross sectional data was utilized for analysis with the main unit of analysis being commercial banks' customers. Primary data from four large banks were used collected for analysis. Banks within Nairobi area were chosen as the sample frame. Stratified-Random sampling was used with each of the four banks representing a stratum. Structured questionnaires were administered to 160 respondents. However, 45 questionnaires had missing items and were excluded from analysis. Therefore a sample of 115 was used for analysis. Respondents were asked to rank itemized questions that represented the variables of interest.

Descriptive statistics techniques including histograms, mean and standard deviation were used in the analysis. Descriptive analysis results showed that the demographic composition of the data was relatively balanced. 54 percent of the respondents were male while 46 percent were female. 62 percent of the respondents were married. Majority of the respondents were employed and had either certificate/diploma or were graduates. With regards to the variables of interest, majority of respondents were relatively satisfied and thereby loyal to the bank as average customer loyalty score was approximately 4. Marketing Program variables distributions generally showed that respondents agreed with the general statement that the banks' programs were adequate.

Regression results show that relationship marketing, innovative products and loyalty programs were significant determinant of customer loyalty. Diagnostic tests including adjusted R square of 65 percent and significant F statistics proved that the OLS regression model was reliable and valid. In addition, these tests showed that the coefficients fundamentally explain customer loyalty. It was established that relationship marketing had the most important influence with coefficient of 0.66, followed by innovative products with coefficient of 0.389 and lastly, loyalty programs with coefficient of 0.356.

5.2 Conclusion

In conclusion, the results identified three main causes of customer loyalty, relationship marketing, innovative products and loyalty programs. The first objective sought to identify the extent to which customers' loyalty programs differ across selected banks for the study in Kenya. To address this objective, data from four sampled banks was used. One-way ANOVA was used to evaluate whether there is a significant difference in perception of the five theoretical variables across the sampled banks. The results show that Customer Loyalty and Innovative Product/Services scores significantly differed across the four banks

Secondly, the results show that relationship marketing is the most important factor in determination of customer loyalty among large banks in Kenya. Primary strategies such as improved customer care, attending to customer needs promptly and reacting on customer's feedback may help improve customer perception and ultimately build a strong and profitable partnership between customers and commercial banks in Kenya.

Thirdly, the results identified innovative products and loyalty programs as the second and third powerful determinants of customer loyalty respectively. This confirms the argument that innovation and product leadership is a key ingredient of customer loyalty. As noted by Martisuite *et al.*, (2010), institutions ought to be leaders within their peers in coming up with unique and value adding products. Interestingly, descriptive research results confirm that the innovative products scores across banks differed considerably proving that large banks use product differentiation to enhance their competitive edge in the banking industry.

5.3 Recommendations

First, this study identified relationship marketing as the most important determinant of customer loyalty. To this end, this study recommends adoption of primary and secondary customer relationship management strategies that enhance relationship quality.

Second, product innovation was identified as the second most important determinant of customer loyalty. In addition, it was established that customers rank innovation differently across the four large banks in Kenya. To this end, this study recommends that commercial banks should increase

funds and resources to their innovation department in order to ensure that they become product leaders in the market.

Lastly, the results show that Loyalty Programs had a positive and significant influence on Customer Loyalty. However, the results also show that a significant number of Customers are indifferent to Loyalty Programs. Therefore, this study recommends that Banks should introduce and better loyalty programs by focusing on customer needs and wants if the rewards are to remain relevant to customers. In addition, Banks should raise awareness and inform loyal customers about the Loyalty Programs initiative to enhance that loyalty, trust and commitment

5.4. Limitations of the study and Areas for Further research

The study investigated marketing programs across four large banks within the Nairobi area. Even though the study is deemed useful, there is need to acknowledge that the results might be limited to large banks and might not necessarily explained marketing programs in Tier II and Tier III banks. In this regard, due to the limited scope of the research, further research should focus on evaluating the benefit of marketing programs across all categories of banks. In addition, future studies should also expand the scope and consider Commercial banks, SACCOs and Micro-Financing Institutions in semi-urban and rural areas.

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APPENDICES

Appendix I: Introduction Letter

I am an MCOM student at Strathmore University. I am kindly requesting for your participation in a research study that I am conducting for my dissertation. You have been randomly selected to participate in this research in your capacity as an account holder or bank employee (whichever is relevant). The purpose of this study is to identify the relationship between marketing programs and customer loyalty in banks in Kenya. You are required to participate by way of answering the questionnaire attached to the best of your knowledge. All the detail you provide in the questionnaire shall be used solely for academic purposes and confidentiality shall be observed. Furthermore your name or identity is not required apart from the researcher's number which is randomly assigned. Your participation will be highly accepted.

Yours

Judy Maina

SECTION B: CUSTOMER LOYALTY

1. Do you have an account with this bank?

Yes []

No []

2. If so which account(s)?

• Savings a/c []

• Salary a/c []

• Current a/c []

• Fixed Deposit a/c []

• Business a/c []

• Joint a/c []

• Child/Children a/c []

3. How long have you banked with this bank?

• 0-2 years []

• 3 – 4 years []

• 5 – 6 years []

• 7 - 8 years []

• 8- 10 years []

• Over 10 years []

4. How frequently do you transact in this account? (fill the most applicable category)

• Daily []

• More than once a week []

• Once a weak []

• After a fortnight []

• Once a month []

5. Other than this bank do you have an account elsewhere?

Yes []

No []

6. If so which type of account(s)? _____

- Savings a/c []
- Salary a/c []
- Current a/c []
- Fixed Deposit a/c []
- Business a/c []
- Joint a/c []
- Child/Children a/c []

7. (i) Do you have any account in any other bank?

Yes [] NO []

(ii) If yes please indicate which one (s)

How many other accounts do you have with other banks?

- Savings a/c []
- Salary a/c []
- Current a/c []
- Fixed Deposit a/c []
- Business a/c []
- Joint a/c []
- Child/Children a/c []

8. On a Likert scale of 1-5 where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5= strongly agree, how would you rate the following services in your bank?

Services	1	2	3	4	5
• My Bank offers me excellent service					
• I feel satisfied banking here					
• From the fees I pay I get value for my money					
• The bank offers me wide variety of products to choose from					
• I have a working relationship with a customer advisor whom I call on for banking services					
• The bank rewards its loyal customers by offering them preferential treatment and appreciation					
• Any other (please specify)					

9. On a Likert scale of 1-5 where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5= strongly agree, how happy are you with the following services provided by your bank?

	Bank services	1	2	3	4	5
Loans	Loans are processed very fast					
	Usually amount applied for it the same as amount granted					
	Interest charge is better than competitors					
	I am happy with the grace period					
	I receive my loan statements periodically					
	I am okay with the Early Repayment fee charged					
	The tenor of loan repayment is better than competition					
Credit card services	I am happy with my credit card limit					
	The interest charge is better than competition					
	I am happy with the grace period					
	I receive my card statements periodically					
	The customer service staff are very friendly					
	My bank informs me every time I transact with my credit card					
Receiving salary payments	I receive my salary payment promptly					
Salary Advances	My bank offers me salary advance					
	The salary advance is processed in a timely manner					

SECTION C – RELATIONSHIP MARKETING

Please indicate the extent to which you agree with the following **RELATIONSHIP MARKETING** issues. On a Likert scale of 1-5 where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5= strongly agree Please record your answer by ticking at the space provided, by the scale indicator.

	1	2	3	4	5
I feel connected to the bank because they understand my needs?					
I am satisfied with the relationship with my banker?					
The bank staff are genuinely concerned with my welfare					
In case of a problem/query the Bank responds in a timely manner					
I completely trust my bank and believe that my information is safe					
I am happy with the level of customer service that the bank offers me					
Any other (please specify)					

SECTION D – INNOVATIVE PRODUCTS/SERVICES

Please indicate the extent to which you agree with the following **INNOVATIVE PRODUCTS/SERVICES** issues. Please record your answer by ticking at the space provided, by the scale indicator. On a Likert scale of 1-5 where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5= strongly agree, how would you rank the following services provided by the bank

	1	2	3	4	5
The bank has superior terms of lending than competitors					
The bank has low lending interest compared to competitor banks					
Generally, my bank products/services have additional features and value?					
The products/services offered by the bank are of high quality					
The products/services offered by the bank generally meet my needs and expectations					
New products/services offered by the bank are centered on customers' needs					
The products are reliable and simpler to use and manage					
The products offered by the bank are unique (do not have matching imitations or substitutes)					
Any other (please specify)					

SECTION E – LOYALTY PROGRAMS

The following are a number of statements describing the services provided by the bank. Please record your answer by ticking at the space provided, by the scale indicator. On a Likert scale of 1-5 where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5= strongly agree, how would you rank the following services provided by your bank

	1	2	3	4	5
This bank offers me more benefits as a loyal customer					
The bank offers me rewards and other benefits as an active and long time customer					
I am committed to this bank because of a premium account holder I am given special privileges					
Loyalty programs consider customer needs hence making them feel wanted in this bank					
The more money you save or bank, the more this bank offers incentives and/or provide special treatment					
I am committed to this bank because of its advertising, marketing and promotion					
I am committed to this bank because of its involvement in Corporate Social Responsibility e.g. paying school fees					
I am committed to this bank because of its involvement in marathon heart and run					
Any other (please specify)					

*******THANK YOU*******

Appendix III: Figures and Tables

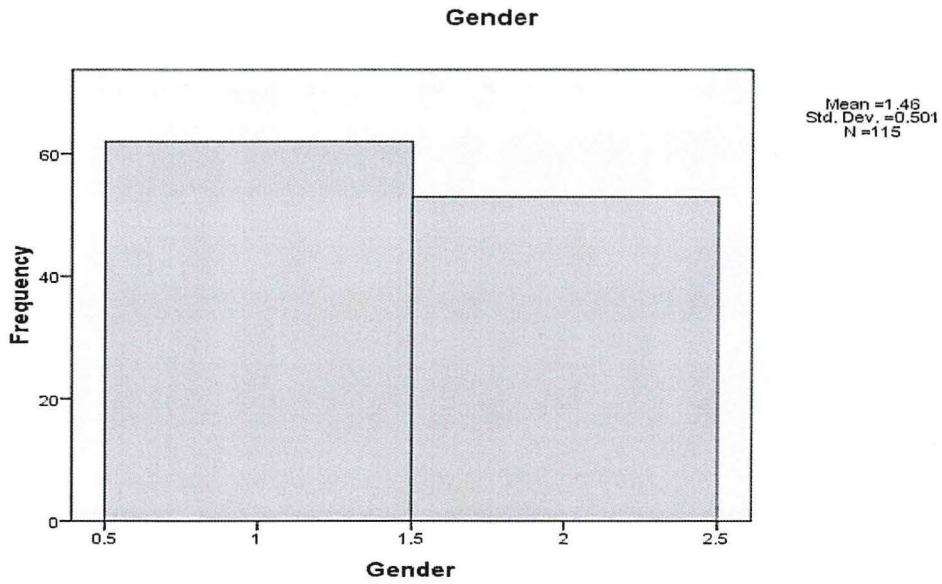


Figure 1: Histogram showing the distribution of respondents across gender

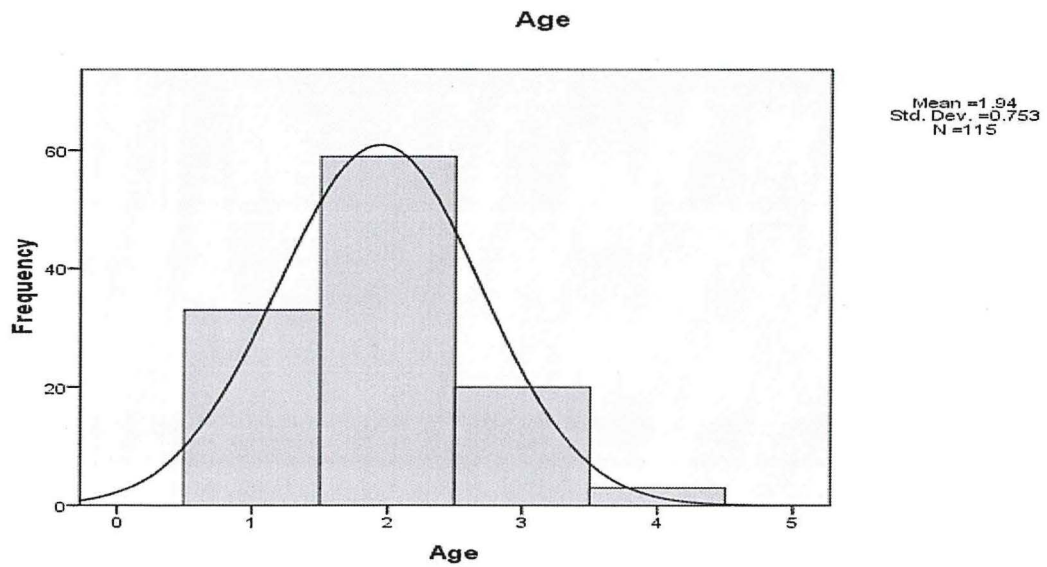


Figure 2: Histogram showing the distribution of respondents across age

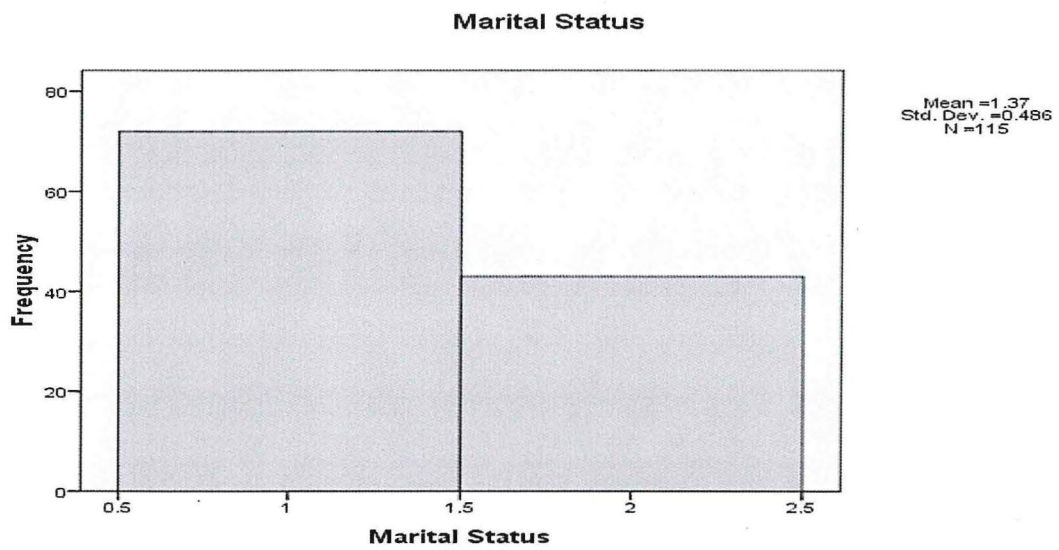


Figure 3: Histogram showing the distribution across marital Status

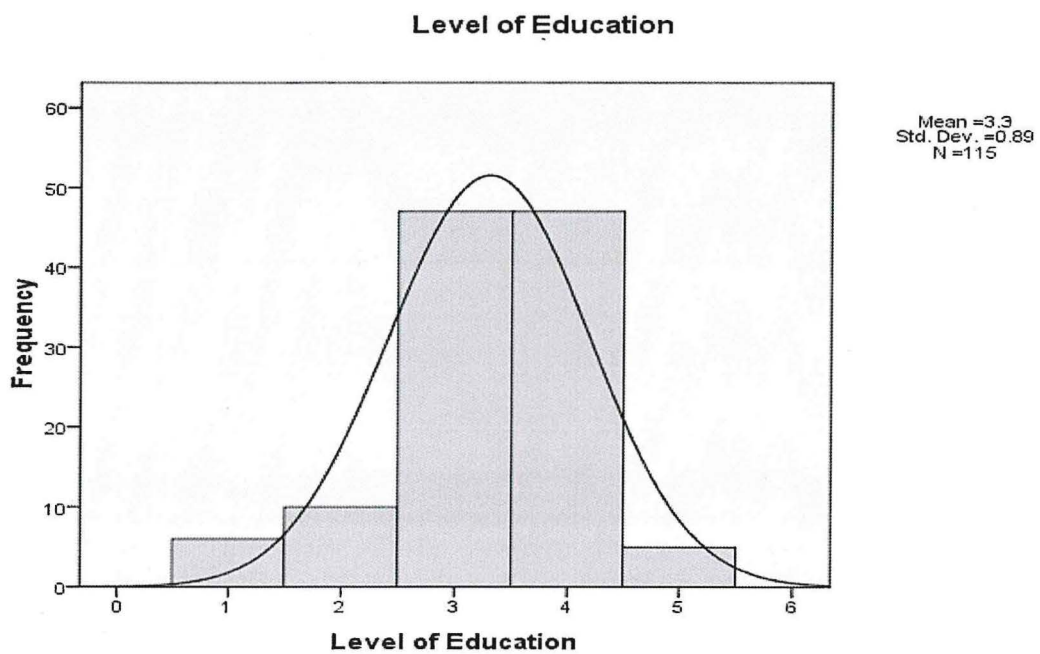


Figure 4: Histogram showing the distribution across level of education

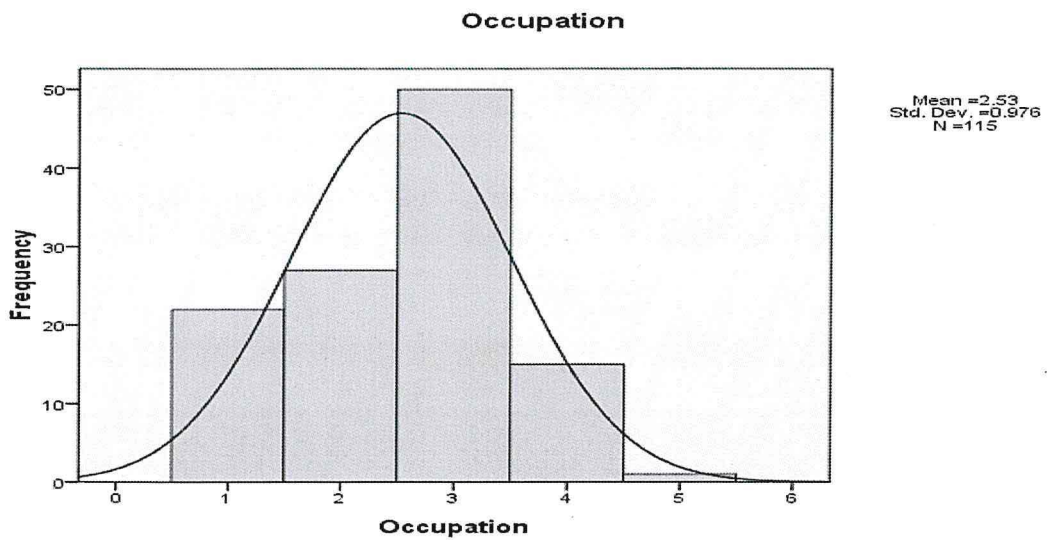


Table 2: Factor loadings (pattern matrix) and unique variances (Customer Loyalty)

Variable	Factor1	Factor2	Factor3	Factor4	Uniqueness
b8_1	0.6897	-0.3092	-0.2324	0.0788	0.3685
b8_2	0.7468	0.0274	-0.2374	-0.0915	0.3769
b8_3	0.6952	-0.3717	0.1927	-0.0636	0.3373
b8_4	0.6960	-0.0571	0.2406	0.0865	0.4470
b8_5	0.6094	0.5672	0.0126	0.0234	0.3062
b8_6	0.8466	0.1172	0.1522	-0.0574	0.2430
b8_7	0.9625	0.0478	-0.1044	0.0337	0.0593

NB: The variable represents items in the questionnaire (see table in section 5955B, part 8 of appendix II)

Table 3: Table showing comprehensive regression output results

Number of obs. = 93
 F(7, 85) = 23.77
 Prob> F = 0.0000
 R-squared = 0.6618
 Adj R-squared = 0.6340
 Root MSE = .46811

CL(depVar)	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
RM.6958983	.1639046	4.25	0.000	.	3700121 1.021784
IP.3767722	.1322074	2.85	0.005	.1139085	.6396359
LP.3180949	.1542451	2.06	0.042	.0114143	.6247754
EDUC	.003512	.0693	0.05	0.960	-.13446 .141484
FreQ_Trans	-.005766	.0505075	-0.11	0.909	-.1061885 .0946565
Marita_S	-.0039617	.1101191	-0.04	0.971	-.2229079 .2149846
Time_Banked	.0415375	.0552415	0.75	0.454	-.0682973 .1513724
Age	.0871549	.0887011	0.98	0.329	-.0892679 .2635778
Gender	-.1291559	.0990363	-1.30	0.196	-.3261351 .067823
Constant	-1.649465	.542205	-3.04	0.003	-2.727514 -.5714161