Factors Influencing Customer Loyalty in The Banking Sector  
A Case of Commercial Banks in Mombasa Kenya

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

I. Introduction

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

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

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

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

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

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

C. Research Objectives
The general objective of this study was to determine the factors influencing customer loyalty in the banking industry in Kenya. The following are the specific objectives of the study:

i) To establish the influence of quality of service on customer loyalty in the banking industry

ii) To determine the challenges of keeping a customer loyal to a bank in the banking industry

iii) To establish the benefits that accrue from keeping the customer loyal to a bank in the banking industry

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

II. Literature Review
The following areas were reviewed:

i) The determinants of customer loyalty in the banking sector
   • Perceived Quality
   • Customer Satisfaction
   • Switching Cost
   • Trust
   • Commitment

ii) Relationship marketing and customer loyalty

iii) The underpinnings of relationship marketing

iv) Customer loyalty and organizational performance

v) Customer loyalty in the banking industry

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

Conceptual Framework

![Conceptual Framework](image)

Fig. Conceptual Framework

=of services, the financial sector has seen tremendous developments in this aspect, but the quality and ease of use determines the loyalty. Segmentation of customers may lead to loyalty if a given segment receives services that match their expectations.

III. Research Methodology

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

2. Study Area
This study was carried out in Mombasa City which is the second-largest city in Kenya. A regional cultural and economic hub, Mombasa has a prominent port and an international airport, and is an important regional tourism centre.

3. Study Population
The study targeted managers, middle level employees and customers of the selected Banks. This population was involved in the study because they interact with the customers and therefore has valuable information for this study.

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

5. Data Collection methods
The research instruments to be used in collecting data are the questionnaires.

6. Data Analysis
This refers to the examination of the coded data and making inferences (Kombo and Tromp 2006). In this study, data was analyzed using both descriptive and inferential statistical techniques.

IV. Data Analysis and Presentation
Factors influencing customer loyalty in the Banking sector
The study sought to establish from the respondents the factors influencing customer loyalty in the banking sector.

Factors influencing customer loyalty in the Banking sector

- Product quality
- Service quality
- Retailer image
- Marketing

Engagement in corporate social responsibilities

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

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

Benefits accrual from keeping the customer loyal in the banking industry

- Increase of the number of customers
- Improved quality of services
- Increased profit margins
- Improved salaries for employees
- Improved bank image
- Makes marketing of the market easier

V. Conclusions and Recommendations

A. Conclusions

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

B. Recommendations of the Study

i. Positive attitudes towards customers and courteous practices should be practiced by the employees so as to improve customer loyalty.

ii. Banks face challenges in retaining their customers hence need to come up with unique strategies to attract and retain their customers.

iii. The employees need to understand over demanding customers and educate them on the services provided by the bank.

iv. There is need to set up clear policies governing both the customer and the employees from the lower rank to the managerial pasts to avoid misunderstandings among the employees and customers.

References


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