

**FACTORS INFLUENCING CUSTOMER RETENTION IN MICROFINANCE
INSTITUTIONS IN KENYA**

(A CASE STUDY OF MICRO AFRICA LTD)

BY

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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ABSTRACT

Customer retention in the banking and microfinance sector has, for long, been a difficult goal for the players to attain. In addition the recent microfinance crises, most of which occurred between 2008-2010 in several countries around the world, and the emergence of new research findings exposed gaps in previous microfinance studies. Some of these gaps include lack of empirical testing on the concepts recognized globally as playing a key role in influencing retention of customers in the service sector. The study has identified four of those concepts. The purpose of the study was to analyze the factors influencing customer retention in microfinance organizations in Kenya, using Micro Africa Ltd (MAL), a leading credit only microfinance institution in Kenya, as a case study. The main specific objectives of the study were to determine the extent to which price perception, commitment, service quality and switching barriers influence customer retention in microfinance organizations. The researcher used both descriptive and correlation research design. Out of the active borrowers of the case study organization, the researcher focused on 2,100 found in Nairobi County as the target population. This is a secondary source of data. A sample size of 210 customers spread in four branches of Nairobi County was picked using a simple random sampling method. This ensured adequate representation of the total population in the country. The main data collection instruments were structured questionnaires. The dependent variable was customer retention, while the independent variables were price perception, customer commitment, service quality and switching barriers. Data analysis was done through factor analysis using STATA, statistical software and the out presented through tables and a regression matrix. The study found that of the four independent variables, only customer commitment had a significant and positive relationship with customer retention in Micro Africa Ltd in Nairobi County. The other three had a weak but positive relationship with customer retention. In order for MAL and other related MFIs to enhance customer retention, the study recommended close attention to customer commitment by investing more into customer relationship management that can inhibit switching and increase customers' dependency. Also there is the need to focus on switching barrier factors such as transaction time and to open more efficient branches closer to customers, thereby making switching to other financial providers somehow unattractive. Industry wide further research on the four variables should also be explored.

Key Words: Customer Retention, Price Perception, Customer Commitment, Service Quality, Switching Barriers

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ACRONYMS & ABBREVIATIONS

MF	Microfinance
MFI	Microfinance Institution
AMFI	Association of Microfinance Institutions of Kenya
DTM	Deposit Taking Microfinance
MAL	Micro Africa Ltd.

TERMS AND DEFINITIONS

Customer Retention

Customer retention is defined by Blattberg et al (2001) as the repeated buying of the same market offerings over a long period of time. Payne (2000) defines customer retention as the percentage of customers at the beginning of the period who remains the firm's customers at the end of the period.

Price perception

Consumer perception pertains to how individuals form opinions about companies and the merchandise they offer through the purchases they make. Price perception is whether consumers believed they were being charged fair prices. (Chris Blank, 2012)

Customer Commitment

Meyer and Herscovitch (2001) defined commitment as a force that binds an individual to a course of action of relevance to one or more targets. It has been variously defined as “an implicit or explicit pledge of relational continuity between exchange partners” (Dwyer et al. 1987:19) or as the “psychological attachment” to an organization (Gruen et al. 2000, 37).

Service Quality

Service quality is a measure of how well the service level delivered matches customer expectations. Delivering quality service means conforming to customer expectations on a consistent basis. (Lewis and Booms, 1983)

Switching Barriers

Switching barrier is any factor which makes it difficult or costly for consumers to change providers (Jones et al, 2000)

Micro Finance

According to Acha (2012), Jaffari et al (2011), CBN (2005) and Conroy (2003), microfinance is the provision of financial services to the poor who are traditionally not served by the conventional banks according to Eboh, (2008), these financial services may include credit, savings, micro leasing, money transfer and payment services.

CHAPTER ONE

INTRODUCTION

1.1 Back ground of the Study

The popularity which microfinance enjoys is predicated on its poverty alleviation potential (Ibok et al, 2012). To attain and enhance this potential, the MFIs need to be financially sustainable and can only achieve this by ensuring that their customers are at least satisfied and to a great extent delighted by the services they are offering. Microfinance bank services are also undergoing major transformations, driven by change in market and industry dynamics and customer sophistication (Ibok et al, 2012). But their marketing has often been deficient in the area of customer retention.

Recent researches done on customer retention strategies used by both the conventional banking industry and the Microfinance banks have been damning in their findings. The narrative is that the conventional banking and financial practices have failed (Payne, 2000). Customer retention on one hand is observed to lead to superior organizational performance (Garland, 2002), but on the other, the nature of retention strategies and reasons for their success or failure are poorly understood. Retention strategy role is broadly to lure customers back to the business and to try to retain them for life. According to Ahmad (2001), the banking industry is also fully embracing and giving high priority to developing both customers retention and management strategies.

The emergence of post- industrial society has compounded even further the ability to surmount the difficulty of retention strategy. Customers are becoming more sophisticated, requiring a different approach in understanding their royalty profiles. This era is characterized by

market offerings becoming less standardized while technologies are imposing difficult challenges to issues quite different from the past. In addition, there is fragmentation of the customers' market, strongly evidenced by them growing more mature thereby as expected increasing global competition.

As expounded extensively by Anne-Claire, 2010, MF has for the last 2 decades captured the attention of both donors and policy makers for its ability to provide credit to the poor who have no access to conventional banking services. The rationale is that with the extra income and purpose, poor people can set up income generating activities to reduce their susceptibility and fight poverty. The success of micro credit programs has been well documented in a number of studies. Several practitioners powerfully hold that microfinance can contribute positively in the lives of low-income households (Armendáriz and Morduch, 2007). The studies have also revealed that clients of microfinance institutions experienced a positive impact at different levels, e.g. at a household level, where an increase in their income led to a matching increase their consumption (Khandar, 2005; Swain et al, 2008; Mosley, 2009); at an enterprise level, through contribution to capital accumulation, leading to creation of employment opportunities (Hiatt et al, 2006; Mosley, 2009) and finally at the community level, employment of new workers within poor groups.

1.1.1 The Customer Retention Concept

The concept of Customer retention has its root from the planned behaviour theory and is something that consumers may exhibit to, services, brands, activities and products. According to Zeithaml, Berry & Parasuraman (1996), customer retention is conceptualised as a dimension of a customer loyalty construct. In literature, the terms “customer loyalty” and “customer retention” are often used interchangeably. Customer retention and loyalty however, are not surrogates of

each other because the two terms can refer to different things.. There is also a suggestion by Hennig-Thurau and Klee (1997) that the conceptualisation of customer retention needs further illumination. Zineldin(2000) views retention as a commitment of continuing to do business, or to exchange with a particular company on an ongoing basis. A definition of retention that can be considered comprehensive (Strauss & Friege, 2001) is the consideration of the customer's liking, identification, trust, commitment, repurchase intentions and willingness to recommend, with the first four being emotional-cognitive retention constructs and the last two being behavioural intentions. Customer retention (Buttle, 2004) is also concerned with repeated patronage, which is directly related to repeat-purchasing behaviour and brand loyalty.

Generally, the following factors need to be taken into consideration when attempting to measure generally customer retention: the customer retention rate by market segments in terms of the different services or products offered, the customer retention rate over time, and also the share earned of the customer's wallet. In the case of service firms, measuring retention should also involve gauging the absolute number of customers who have been retained, as well as using a weighted rate, that takes into account the share of wallet together with the life time value of a customer. Unfortunately, service marketing literature has provided ambiguous guidance to service managers on how to retain their valued customers. Ahmad and Buttle (2001)

1.1.2 The Microfinance Sector in Kenya

Microfinance is distinguishable from the other forms of formal financial products through: simplicity of operations, smallness of loans advanced and savings collected, and near absence of assets-based collateral. Acha and Ukpong (2012), Iorchir (2006). Many can deduce from the foregoing that microfinance is a form of poverty alleviation strategy which operates by providing credit and other financial services to economically active and low income households and their

businesses. According to Yunus (2002), Yunus & Alan (1999), the achievement of this poverty alleviation objective, microfinance tries to help the poor build viable business leading to increased income, reduce vulnerability to shocks and create employment. This poverty reduction potential of microfinance banking influenced the government of Kenya to embrace the sector in the 80s and 90s. However in 2006, the sector was formalized by the passing of the Microfinance Act. To achieve the above goals the microfinance Institutions must be financially sustainable which cannot be attained without satisfying and retaining customers.

According to the Association of Microfinance Institution- Kenya (AMFI) Annual Report on The 2013 Microfinance Sector in Kenya, the industry is one of the oldest and the most established in Africa and has emerged from the increased interest in the informal sector, which started four decades ago (early 1970's) after the seminal ILO report on employment was issued in Kenya in 1972. Among the outputs of this report was the identification of the informal sector (for the first time), as a potentially important contributor to employment and economic growth in Kenya and other developing countries (AMFI, 2013). From the same report that was published in November 2013, since then, there has been a gradual shift in interest and resources towards assisting the informal sector in a variety of ways. During that time also, there were extremely limited outreach, since the major organizations availing credit to the informal sector consisted of church based organizations like the National Council of Churches of Kenya (NCCCK) and other smaller church based NGOs. Their activities and programmes to the less fortunate were heavily subsidized and ad-hoc additions to other social outreach programmes offered.

In the 1980's, however, other specialized organizations began operating. Worth mentioning is Kenya Rural Enterprise Program (KREP- predecessor of KREP Bank), which started as a subsidiary of a U.S. based Nongovernment Organization and Kenya Women's

Finance Trust (KWFT). They were initially heavily subsidized and used the integrated (credit and training) approach to assist micro-entrepreneurs. Initially, KREP had a limited loan portfolio but focused more on lending funds provided by donors to smaller organizations like NCCCK, KWFT, etc (AMFI, 2013). By the early 1990's, interest and knowledge about the microfinance industry had grown substantially and the approach to the industry began to become more focused and sustainability oriented.

Most MFIs adopted the "modest" Grameen approach, but they either stopped completely or spun off other ancillary activities like training into separate programmes. A handful of specialized, product based organizations began to emerge in the sector as many church based organizations died out or collapsed due to lack of funding. Some of most prominent institutions that emerged were, KWFT, PRIDE, FAULU, KREP, and more and more other institutions like NCCCK (SMEP) and CARE-WEDCO. Apart from KREP which had been licensed as a bank hence operating as a commercial entity, most these institutions continued to be reliant on donor funds. Another point to note is that these institutions have gradually changed focus from emphasis on the very poor to the enterprise poor, as the demands on them to become financially sustainable has increased.

According to the Annual Report on MF sector in Kenya (AMFI, 2013), total assets of the sector registered a stable growth for the past three years (+ 21.6% in 2012), amounting to KES298.4Bbn of Dec 2012. The sector remains dominated by the banks, in particular Equity- representing 72% of the sector's total assets. The relative market share of the different segments remained stable since 2010, with the 4 banks, 7 DTMS and 21 Credit- Only MFIs respectively accounting for 85%, 11% and 4 % of the sector's total assets in Dec 2012. bAs of Dec 2012, the

MF sector showed positive growth trend, reaching out to 832,794 active borrowers and without banks the sector reaches out to 657,785 active borrowers.

However, as per the Fin Access 2013 survey, the growth of the number of active borrowers is moderate (+ 5.5% and 8.1% for the whole sector and the sector without banks respectively) and slower than the portfolio growth, indicating an increase in portfolio size per borrower. The growth in active borrowers is much higher in for credit only MFIs (+ 21%) than for banks (- 3.4%) and DTMs (+ 0.5%). Number of active clients stand at 1,732,290 for the entire sector and at 914, 859 when banks are not considered. Just as the number of number of active borrowers, the number of active clients grew fastest for credit only MFIs and banks experienced negative growth.

Women represent a large majority of borrowers (65% of the entire sector and 70.9% of the sector without banks in 2012). DTMs are the segment having the highest share of women borrowers as KWFT (64% of the total DTM active borrowers) lends exclusively to women. As of Dec 2012, MF services were provided through network 566 branches across the country. Banks, DTMs and Credit only MFIs have 292, 105, and 164 respectively, with Nairobi, Central and Rift valley counties accounting for more than 50% of the total branch network. (Fin survey, 2013)

1.1.3 Profile of Letshego (K) Ltd

Letshego (K) Ltd, (formerly Micro Africa Ltd- MAL) is part of Letshego group of companies, listed at both Johannesburg and Botswana Stock Exchanges. The group core business activity is offering of microfinance services to customers. Currently, the group is in 10 African countries, namely, Kenya, Uganda, Rwanda, Tanzania, Botswana, Lesotho, Mozambique, South Sudan, Namibia and Swaziland. Letshego group is the 33rd biggest company in Africa (Forbes, 2014).

According to the organization's investors' profile document, the strategic intent (Vision) of the company is to be a *Leading African Financial Services Group*. As part of this vision, lies the number of customers served by the group, whereby, a key performance indicator at any given period is the growth in the number of customers served. Letshego (K) Ltd (Formerly MAL Kenya) has 15 fifteen branches spread in eight counties. It is the largest credit only MFI in Kenya.

From the information gathered from the organization's management, Letshego (K) Ltd has experienced high exit rates on its customers for the last three years. This is evidenced by the stagnant growth in the number of customers served in the last three years. Total clients registered a paltry 15% growth between 2012 and 2013, and 0.2% between 2013 and current year (2014). The retention is worsening. Also exit rates are above 10% of the total active customers. This is a clear demonstration that the company has customer retention challenges. Identification, understanding and appreciation of the key factors responsible for the customer drop outs therefore, will aid management to come up with appropriate package of strategies to not only turn around this state of affairs, but also to embrace internationally recognized customer retention strategies for future superior performance.

1.2 **Statement of the Problem**

In East Africa the rate of client drop-out from MFIs ranges between 25% and 60% per annum (Graham, 1997). Clearly this represents a substantial barrier to achieving operational sustainability. When an organisation is losing over a quarter of the clients it serves every year, it is "running hard to stand still". In the words of (Hulme, 1999), "client exit is a significant problem for MFIs. It increases their cost structure, discourages other clients and reduces prospects for sustainability" There are several studies that have been done on client drop out

(Bangladesh-1997, Mali- 1999, Nigeria- 2002, South Africa- 2002, Tanzania-1999, Uganda-1998, and Kenya-1999). These researches though done in different social economic backgrounds seem to agreed that the key drop- out reasons were: inappropriately designed products that fail to meet the needs of MFIs' clients, rigidity of policies and procedures, poor delivery channels, macro-economic factors, poor financial literacy from customers, natural calamities, competition, among others. While extensive analysis seems to have been attempted by these studies, there exist limitations / gaps. Firstly, all these studies were conducted a decade ago when microfinance industry environment was totally different as of today and the economic dynamics of those countries have changed. Secondly Microfinance industry has changed from being supply driven in its strategy, and embraced contemporary market led approaches in its focus. This has been the case especially the Kenyan sector. Thirdly, most of the studies' population of interest was group lending methodology- the most original delivery channel for most MFIs in developing countries. The current MFI however is a commercial entity, embracing various complex product delivery methodologies. Finally these studies focus on one side of the coin- reasons for drop out. Few or none that has attempted in a commercial manner, to analyze customers' preferences as far as loyalty to the organization is concerned. The role a customer's commitment, service delivery, perception and switching barriers should play to influence the commercial interests of the organization however, are not well spelt out.

1.3 General Aim of the Study

The general objective of the study therefore was to examine whether significant relationships exist between price perception, service quality, customer commitment, switching barrier and customer retention of MFIs in Kenya, with reference to Micro Africa Ltd. The following are the specific objectives:-

1. To determine whether price perception influences customer retention of MFIs in Kenya
2. To determine the extent at which commitment of customers influences their retention in MFIs in Kenya.
3. To find out the role switching barriers plays in influencing retention of the MFIs customers in Kenya
4. To find out the extent service quality affects customer retention of the MFIs in Kenya

1.4 **Significance of the study**

This study is expected to be of immense importance to Letshego (K) ltd, as her customers were used directly as respondents. Management will find the study useful, especially on the feedback on what customer hold dear for their retention. In additionally when it comes to strategy design, focus and resource allocation, and the company will find it useful in prioritizing customer involvement initiatives, deliberate engagement of customers in the areas of ideas, faster complaint resolution mechanism, incentive for new customer referrals, improved product knowledge and costs, faster turnaround time, among other factors.

In theory and practice, the discussions, conclusions and recommendations of this study would go a long way in enriching the study of microfinance as a whole, locally and globally. Factors influencing customer retention in the service sector in general are many. The testing of price perception, customer commitment, service quality and switching barriers concepts in this study has expended the knowledge base for the service sector in general, and for financial sector in particular.

Finally the study would be of help to other stakeholders, government, customers, donors, microfinance professionals and investors. Every one with an interest in the success of the microfinance sector will be interested on researches done on customer satisfaction strategies and retention. The success of every business lies with how long a customer patronizes one's business

entity among other factors. This study is a humble attempt to provide any one with an interest in customer retention, an avenue to starting serious interrogation of the tested factors for long term customer retention.

1.5 Scope of the Study

The research exercise was centered on the activities of Micro Africa Ltd, the biggest Credit only Microfinance Institution in Kenya, whose focus was active borrowers spread in all branches in Nairobi County.

1.6 Limitation of the Study

Majority of MF customers have low or moderate mastering of both written and oral formal languages. This makes it difficult in responding to especially questionnaire questions, hence leading to less desirable responses. The researcher however focused on customers expected to have a better grasp of things, together with designing simple questions that required easy responses. There was no open ended questions.

It may be argued by some that the study is only based on one organization and hence may not give a true reflection of the whole MF industry in Kenya. The researcher overcame this through the careful selection of the case study, which is among the top four providers of microfinance services and the biggest credit only MFI in Kenya, with a national coverage. The population of study selected also has cosmopolitan demographics, representing the different ethnic identities within the country. On the independence of the findings, the researcher carried the exercise in an independent manner, guided by the university's letter of approval to conduct the study. Also, the questionnaires were designed in such a manner as to omit individual clients' details such as names, etc. This encouraged customers to be objective and honest.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature from other studies that are related to customer retention in service industry. The review of the literature is reviewed under the themes: theories on customer retention, the concept of customer retention, factors that influence customer retention and conceptual framework for the study. On theories, we select two retention models for discussion. On factors influencing retention, the focus is on the objectives of the study, where we proceed to review literature on retention verses customer commitment; retention verses price perception; retention verses switching barriers and finally retention verses service quality.

2.2 Theories on Customer Retention

The themes by past researchers on the factors influencing customer retention has been a focus on Customers' point of view. This is as results of several researchers perceiving customer retention as the tendency for customers to stay with their services providers, and hence the viewing it as a behavioural factor by them is not a surprise (Ranaweera & Prabhu, 2003a). This customer point of view then will inform the attempt in this section to discuss the frameworks and models illustrating the factors influencing customer retention. Further, Selection of two theories namely Richards (1996) conversion model and Sharma and Patterson's (2000) relationship commitment model illustratively helps further understanding of customer retention from the customers' perspective.

2.2.1 Conversion Model

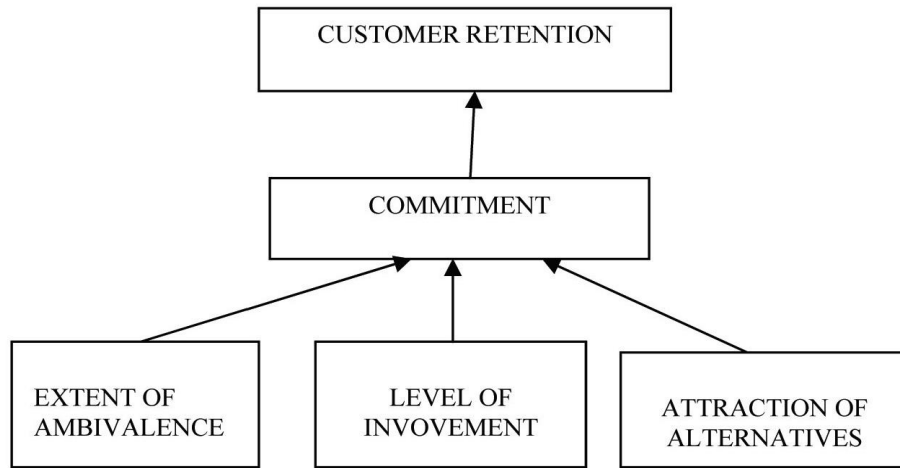
Richards (1996) model argues that satisfying a customer is not just enough, as predicting customer behavior by satisfaction alone may not happen. He also tends to explain that since

satisfied customers will still leave and that dissatisfied customers can still remain, consequently then, firms are better discussing customer commitment than discussing customer satisfaction. This position seems to be supported by Payne (2006), who seems to also agree that to some degree customer satisfaction helps to make customers committed. Nevertheless, it's worth mentioning that the building of committed customers involves more than merely satisfying them.

In building his model, Richards (1996) identified three factors as drivers of commitment as level of involvement, attraction of alternatives and the extent of ambivalence (as illustrated in Figure. 1). Firstly, one of the factors identified to drive commitment is the level of involvement in the brand. According to Richards, when people are much involved in an agreed choice, they tend to be more careful on their choice of alternatives, and once they have made their choices, they often tend to stick to them. Thus, if the customer is dissatisfied save for being involved, the primary strategy will be trying to repair the relationship rather than to seek other alternatives. On the other side of the coin, when the customers are dissatisfied and uninvolved at the same time, they simply switch providers and would not even care about fixing the relationship.

FIGURE 1

Richard's Conversion Model



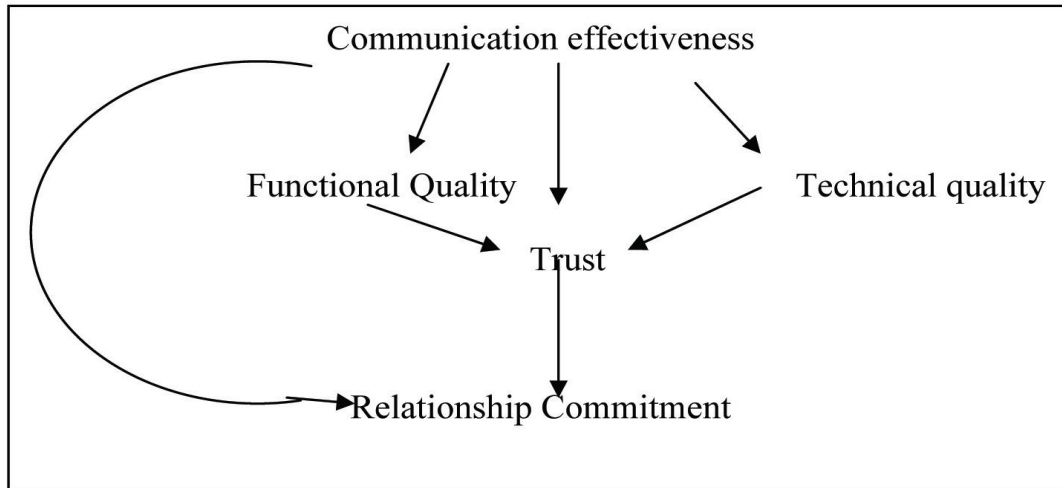
Source: Richards, 1996.

2.2.2 Relationship Commitment Model

A model showing the determinants of relationship commitment has been provided by Sharma and Patterson (2000). It comprises three factors: functional quality, technical quality and communication effectiveness. Trust in the relationship affects all the three factors, thereby affecting relationship commitment. Trust implies reliance on or confidence in, the process or person (Crosby, Evans, and Cowles 1990). This implies that, a stronger relationship commitment is as a result of a greater level of trust (see Figure 2). Trust is also defined by Sharma and Patterson (2000) as the belief that the services provider can be relied on to behave in such a way that the long- term interests of the buyer will be served.

FIGURE 2

Conceptual Model of the Determinants of Relationship Commitment



Source: Sharma and Patterson, 2000.

Another argument is that of Morgan and Hunt (1994) which explains trust as having a positive relation with the extent to which the firms share similar values. Support for this came from Ganesan's (1994) studies, which showed that customers' satisfaction with past exchanges with the firms acted as a trust booster for them (firms). According to Sharma and Patterson (2000), service quality can be divided into two main components: technical quality and functional quality. The former is related to the actual outcomes or the core service as perceived by the client. The competency of the professionals in achieving the best return on investment for their client at acceptable levels of risks is viewed as key, and technical quality is relevant to the promised service (Jansson and Letmark (2005). Sharma and Patterson (2000) further argued that, functional quality is concerned with 'what' is delivered and 'how' the service is delivered, and is therefore concerned with the interaction between the service provider and service receiver, plus the assessment is done in a highly subjective manner. Their arguments also seem to contend trust has having a great impact on how quality is delivered, both in terms of technical and

functional quality. Their argument further tends to stipulate that with a greater quality perception, the relationship commitment will tend to be even stronger.

2.3 **Empirical Review**

In business relationships, commitment is regarded as the central outcome variable which ensures the durability, stability, strength, and to a great extent also, profitability of a relationship (Morgan & Hunt, 1994). Customer retention, in addition, implies a long-term commitment on the part of the customer and the firm to maintain the relationship. Creating long term buyer-seller relationships is the same process as development of mutual commitment (Wilson, Soni & O’Keeffe, 1995). As expounded further by Aspinal, Nancarrow, and Stone, 2001, even though the meaning and measurement of customer retention vary from industry to industry, there appear to be a general agreement that a firm that focuses on customer retention by using the appropriate strategies is capable of enjoying several benefits that can be economic in nature.(Buttle, 2004)

Higher margins and faster growth are some of the key benefits of retaining customers to the organization which are relied from the view that generally higher profits can be attributed to the longer a customer stays with an organization, (Reichheld & Kenny, 1990). Bowen and Lawler (1995) further contents that, staffs are in a better place in recovering situations or delighting customers if they are given more power, bigger access to information and adequate knowledge. Also, according to Lewington, de Chernatony & Brown, (1996) information systems in addition, provide essential support for customer retention by keeping accurate details to assess the value of customers to the organization, on purchase records, and in picking up likely defectors. It should also be noted that the significance of retaining customers is not new to marketing. Kotler (2003) believed that marketing also is as much concerned with retaining as well as acquiring customers.

From review of literature, the following factors (price perception, customer commitment, service quality, switching barriers) were found to influence customer retention. The following section discusses these concepts and their relationship with customer retention.

2.3.1 Price Perception and Customer Retention

Abrat and Russell (1999) found that customer perception about the price of the company products or services are important requirement for the customers to keep on with the existing service providers. They tend to switch the existing service providers if the prices are too high of the company's products. Schriver (1997) investigation found out that, if customers are offered more options, they tend to be more eager in trying other service providers, mainly if they do not experience the satisfaction for continuing and they observe that many service providers to be the same of feature and services. According to Martin-Consuegra (2007) customers those who are price conscious are usually not ready to pay prices for service or product if they seemed that the price is not reasonable. Munnukka (2005) investigated that the choice of suitable value is comparatively fine for price conscious consumers. The business entity should charge that price which is really worth for the product. Peng and Wang (2006) explored that customers often switch their service providers mainly due to some pricing issues.

According to Ranaweera and Neely (2003), the hypothesis "the better the perceived price is, the greater is the repurchase intentions". However they argue that future research is needed in this area, as little research has been conducted on the correlation between price perception and customer retention. In their study, they did find out that there was a direct relation between price perceptions and customer behavioral intentions

In a study done in South Africa, Stark and Nyirumuringa (2002) have shown that the lack of products and services information between management staff and clients lead to clients dropouts.

However, Urquizo (2006) has a different opinion about the quality of services. He contends that the staff attitude rarely accounts for clients' desertion, because the clients have lower expectations towards it. He gets support from Dackauskaite (2009) whose study was carried out in Ethiopia. Another dimension on how perceptions shape customer decisions to stay with an organization is as far as the competitive environment is concerned, where many authors have recognized that over the past few years, microfinance sector has faced high competition. The so many institutions which have been created over the last years and which are competing in the same market account for the above. As observed by Wright (2001) and Pagura (2004), dropouts are frequent because of dissatisfaction with the financial services being offered by one MFI, the belief that other MFIs or other financial institutions can offer better facilities. Thus, they switch from one financial institution to another.

H₁: Price perception has an effect on customer retention in the microfinance industry of Kenya.

2.3.2 Customer Commitment and Customer Retention

In the literature of relationship marketing, Customer commitment has in many cases been identified as a crucial variable (Sheaves & Barnes, 1996). In addition, Vavra (1995) also defined it as a management concept that describes a marketer's view of how to keep customers for life. The relational marketing strategy as supported by the enthusiastic stream, for example, supports for all firms regardless of products or services. The opposing stream protests that relational strategies are inappropriate and costly in an industry such as consumer retailing. The view that different relationship proneness exists among different groups of customers in different industries is what the middle ground holds (Christy, Oliver & Penn, 1996). According to Wetzels, de Ruyter and Lemmink (2000), commitment is the core concept in the relationship-

marketing paradigm and it is an enduring attachment to a seller. Meyer and Allen (1997) conjecture that when referring to its attitudinal and behavioural nature, the interpretation of commitment is not unanimous. This view according to Wetzels, et al (2000), stands in contrast to viewing it as a multidimensional construct, even though mostly is applied to a business to business setting.

Notwithstanding the different views on commitment in the literature, most of them tend to support three dimensions of commitment, irrespective of the subject being studied (Meyer & Herscovitch, 2001). The three dimensions reflect different underlying psychological states, that is, affective commitment, continuance commitment and normative commitment. Continuance commitment is bound by the tangible and intangible costs to stay with the organization. On the other hand, affective commitment refers to the desire and willingness on the part of the customer to stay with an organization. There exist also a positive connection between it and repurchase intention (Fullerton 2005)

Fishbein and Ajzen (1980) argue that personal nature and the social influence determines a person's intention. Its argument goes further in stating that the personal factor can be said to be the individual's positive or negative evaluation of performing the behaviour. The factor is known as attitude toward the behaviour, and simply as the person's internal judgment. Then, this judgment may be based on character, past experience, belief, educational background, and the level of understanding. A person's intention and subsequent behavioural action is made up of these personal beliefs and subjective norms. According to Sheaves & Barnes, (1996), the theory of reasoned action model posits that commitment, an attitude toward a retailer, is a straight antecedent to loyalty After loyalty is solidified, it will be easy for consumers to resist persuasion to switch to or ignore information about goods or services from alternate, more inexpensive

sources (Oliver, 1997). Fullerton (2005) posits that commitment is positively related to repurchase intentions. Therefore, from the discussions, it can be concluded that, commitment has a strong influence on customer retention.

H₂: There is significant positive relationship between customer commitment and customer retention.

2.3.3 Service Quality and Customer Retention

Customers' perceived service quality has been given more and more attention for its specific contribution to the competitiveness of business. This is as a result of the role of the customer changing gradually (Prahalad & Ramaswamy, 2000). Over the last several years, a variety of studies have been available on different issues concerning service quality. The researchers undertaking these studies believed that the measurement of service quality as disconfirmation is valid and gives service providers an opportunity to identify several gaps in the service provided. Nevertheless, according to Venetis & Ghauri (2004), majority of these studies have found a poor fit for the disconfirmation model.

Interestingly, a review of literature reveals that the terms quality and satisfaction are pretty often used interchangeably. Whereas both concepts are related and appear to be integrating, there are still gaps in understanding the two constructs, how they relate to each other, and their past history and consequences (Gwynne, Ennew & Devlin, 1999). The effects of service quality on consumer decision-making appear to be largely indirect and mediated by value and satisfaction (Brady and Cronin 2001). Brady and Cronin (2001) explains that, service quality distinction is important to both managers and researchers, as service providers need to know whether their objective should be to deliver the maximum level of perceived service quality or to have consumers who are satisfied with their performance. Both in economics and

marketing, the level of product attributes has been cited as the foundation upon which quality has often dependent on. In literature on service available, quality is also viewed as an overall assessment (Parasuraman, Zeithaml & Berry, 1988). This opinion is also cited in Boohene & Agyapong, 2011).

In addition, the difference between customer expectations about the performance of a general class of service providers and their assessment of the actual performance of a specific firm in that class yields a perception of quality. This is suggested in the the SERVQUAL model (Parasuraman et al., 1988). This is also known as gap analysis. To analyse service quality and consumer expectation, the SERVQUAL model has been mostly applied by many past researchers. Therefore, from the debate, service quality has strong relationship with customer retention.

H₃: There is significant positive relationship between service quality and customer retention.

2.3.4 Switching Barriers and Customer Retention

Service switching may be due to critical incidents, such as attraction by competitors, inappropriate employee responses to, pricing problems, service failures, core service failures, lack of convenience, service encounter failures, ethical problems, changes in the consumer's or service provider's situation- involuntary switching (Keaveney, 1995). Customer retention has become a top priority in service industries, given that it has been proven to strongly affect profitability (Verhoef, 2003). Consumer loyalty in consumer goods settings has often been measured as a consumer's switching resistance when faced with competitors' counter persuasion, promotions, price decreases and/or stock shortage problems (Oliver, 1997). Nonetheless, it's a very difficult task preventing current customers from switching to other service providers.

Gustafsson, Johnson & Roos, (2005) deeply analyses that customers throughout their lifetime, have many opportunities to switch service providers (competitor offers, sales promotions, etc.), and many events in the established relationship are likely to cause service relationship deterioration and dissolution.

In Zeelenberg & Pieters, (2004), the other use of the term inertia in the literature is that the customer is passive, inactive or lazy. The literature on inertia offers two meanings. One viewpoint is that the customer is not able to change providers because the customer thinks that the alternatives are unappealing, there are highly perceived switching costs, or that there are erstwhile barriers to switching (White & Yanamandram, 2007). It's also conceived in Colgate and Lang (2001) that inertia is perceived as customers not switching because it is too much bother in terms of time and effort. The aim of this study therefore expects to find out the extent to which the proposition on positive relationship between switching barrier and customer retention hold water.

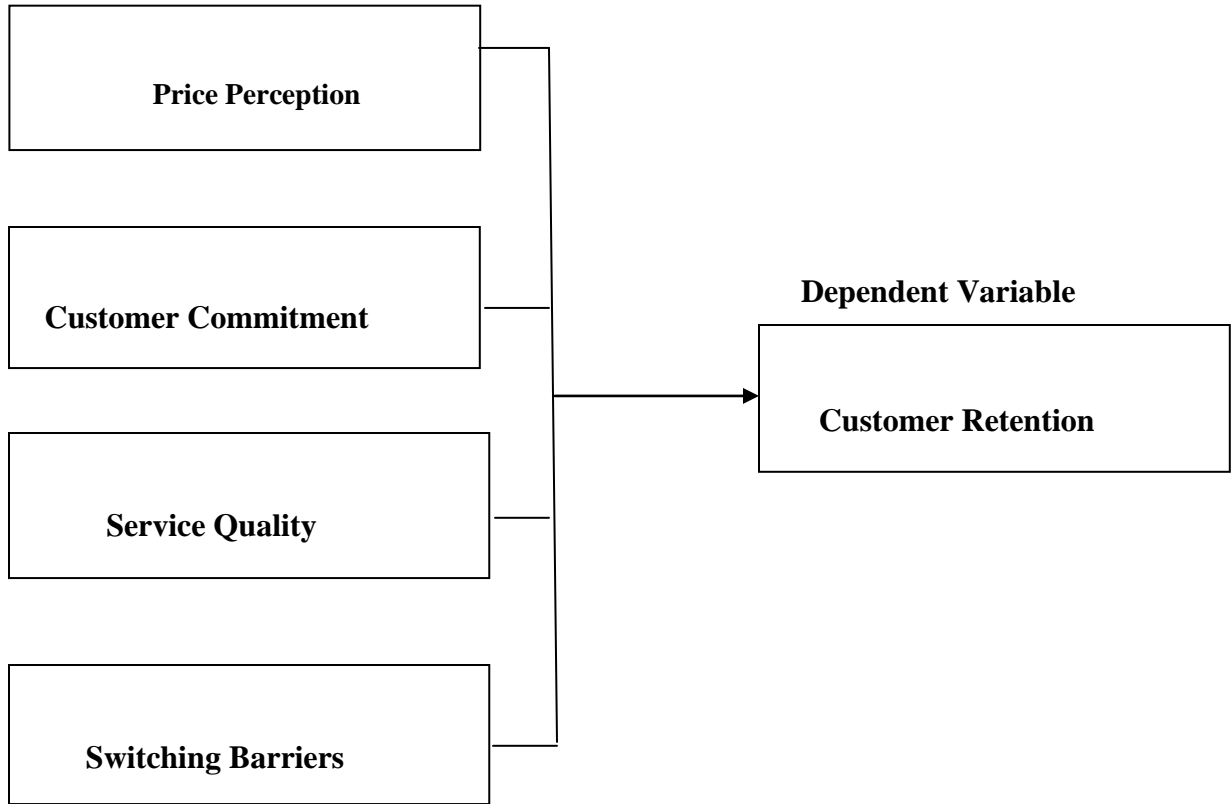
H₄: There is a significant positive relationship between switching barriers and customer retention.

2.4 Conceptual Framework

Figure 3 illustrates the relationship between our conceptual model variables (operationalized). The independent variables are price perception, customer commitment, service quality and switching barriers. The dependent variable (operationized) is customer retention

FIGURE 3
Conceptual Framework

Independent Variables



2.5 The Operationalization of Variables.

The objective of the study was to gauge factors influencing customer retention in MFIs in Kenya, with reference to Micro Africa Ltd (MAL) as a case study. We specifically sought to find out the extent to which price perception, customer commitment, service quality and switching barriers influence customer retention of MFIS in Kenya, a case study of MAL. Table 1 shows how we operationalized our model variables.

TABLE 1
Operationalization Table

Conceptual Variable	Label	Operational indicator
Price Perception	Price Policy	knowledge on pricing policy
	Pricing	Reasonable product pricing
	Costs	flexible product pricing
Customer Retention	Rank Position	1 st choice of the provider
	Relationship	continuous relationship with financier
	Referrals	Reference to new customers
	Positivity	positive messages to new customers
Customer Commitment	Involvement	customer involvement
	Volunteering	voluntary information of customers
	Choice	deliberate choice to stick to financier
Service Quality	Speed	turnaround time for services
	Feedback	timely feedback to customers
	Satisfaction	current product satisfaction
	Borrowings	Repeat purchases
Switching Barriers	Interpersonal	interpersonal relationships
	Switch Costs	switching costs
	Alternatives	attractiveness of alternatives
	Awareness	increased awareness on alternatives

2.6 Chapter Summary

This chapter looked into details literature and studies related to how price perception, customer commitment, switching barriers and service quality influence customer retention in MFIs. The literature reviewed suggests that all these factors do influence customer retention in one way or another. However studies in most of these areas and particularly on customer price perception were found to be scant. In addition most of the available studies approached the question of customer retention from the perspective of the financial provider rather than from the perspective of the customer. Finally, these four key service industry variables have never been tested in the Kenyan MFI sector. It is these gaps that this study proposes to fill.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methods this research employed to carry out the study and collect research information. It describes the research design, the population of study, sampling and sampling procedure and instrumentation. Data Collection methodology, Validity and Reliability test and data analysis and presentation are also presented in this chapter.

3.2 Research design

The study used case study survey design. In the social sciences and life sciences, a case study is said to be an implementation of a research method involving an up-close, in-depth, and detailed examination of a subject of study (the case), as well as its related contextual conditions. Emory (1995) defines a case study as a “study focusing on one organization selected from the total population of the organizations in the same industry”. They can also be said to be detailed investigations of institutions, groups, individuals, or other social units. The principle difference between case studies and other research studies is that the focus of attention is the individual case and not the whole population of cases. It focuses on a bounded system, typically under natural conditions thereby making the system to be understood in its own habitat (Stake, 1988).

This study was also descriptive in nature, as it is designed to establish the factors influencing customer retention in MFIs in Kenya, a case study of MAL. “Descriptive studies try to discover answers to who, what, where and sometimes how questions” (Cooper and Schindler 2003, p.10). It also attempts to capture attitude and patterns of past behavior. According to Orodho, (2009) descriptive design allows researchers to gather information, summarize, present and

interpret for the purpose of clarification. therefore, a descriptive design was suitable for this study and helped in assessing how price perception influence customer retention in MAL; describing the relationship between customer commitment and customer retention in MAL; describing how service quality affects customer retention in MAL and; in determining whether switching barriers affected customer retention in MAL.

The correlational study design was also used due to the use of questionnaires, which allows collection of lots of data from sizeable population. Also during data analysis, we will statistically be gauging how the independent variables (price perception, commitment, service quality, and switching barriers) individually influences the dependent variable (customer retention)

3.3 Population of Study

The target population for a survey is the entire set of units for which the survey data are to be used to make inferences. Thus, the target population defines those units for which the findings of the survey are meant to generalize (Brenda, 2008). The population for this survey constituted the 2,100 customers of MAL with loans, who are served in the four branches in Nairobi County. MAL offers microfinance services to both rural and urban populations.

Nairobi County was chosen due to the fact that it hosts the largest number of financial institutions than any other county meaning that customers have a wide variety of choice than elsewhere. Also at Nairobi County, the choice to utilize the services of an institution is far more likely to be as a result of a careful evaluation of the institution as opposed to other places where customers may be appreciative to join and stay in an institution for lack of a better choice rather than as a result of satisfaction with the services offered. This may therefore enhance the representativeness of the sample. Finally, the customers of MAL who hailed from Nairobi County come from a mix of economic activities ranging from small scale to large scale

entrepreneurship. The findings of the study therefore will less likely be affected by occupation specific biases. Also a mix of people from a variety of economic activities tend to assist in helping the avoidance of a situation where participants completing surveys end up representing a subsample of the population rather than the entire population that researchers are attempting to study (Lodico et al., 2006).

TABLE 2
Target Population

Branch	No. Of Borrowers
Corporate	225
Donholm	758
Kawangware	715
Kasarani	402
Total	2,100

Source (MAL, 2015)

3.4 Sampling and Sampling Procedure

Calculating the right sample size is crucial to gaining accurate information. In fact, your survey's confidence level and margin of error almost solely depends on the number of responses you received (Rick, 2014). The sampling units involved client members of selected groups within Nairobi County that are served by MAL. Simple random sampling method will be used. This is necessary to ensure every kind of customer irrespective the economy activity has equal chance of selection to participate in the survey. This probability method is expected to reduce statistical biases as well. To ensure each customer in the branch population had an equal chance of being selected, we used a random number generation calculator.

According to Mugenda & Mugenda (2003), a sample size of between 10 and 30 % is a good representation of the target population. With a target population of 2,100, a sample of 210 customers in Nairobi County formed the sample size. This sample was proportionately allocated to each branch to ensure equal representation as per the branch proportion of the total population, as shown in Table 3.2

TABLE 3
Sample Size

Branch	No. Of Borrowers	Sample Size
Corporate	225	23
Donholm	758	76
Kawangware	715	71
Kasarani	402	40
Total	2,100	210

Source (MAL, 2015)

3.5 Instrumentation and Data Collection

Primary data was collected from MAL customers who hail from Nairobi County. Secondary data was collected from MAL manuals and annual reports. The instrument used for data collection was structured questionnaires, as they are the most common types of instruments used in survey research (Hair et al 2003), also, according to Hair Black, Babin, Anderson and Tatham, (2006), the questionnaire, on its part is effective when considering a large number of respondents and guarantees respondents' anonymity. Additionally, the questionnaire was used because it is considered to be more suitable as respondents could answer at their expediency. In this study, to make it convenient, attractive and interesting, the choice of close-ended format was adopted

because they are easier to be completed and they do not need any extensive writing. The items are expected to be also easier to administer code and analyze.

The study variables were measured using a five point Richer Scale (ordinal scale), ranging from Strongly Agree; Agree, Neutral; Disagree; Strongly Disagree, as responses from customers sampled. The data collection instrument was constructed to collect data that measured variables through their attributes. Price perception was measured by information on costs, Flexible pricing and attractive rates. Customer commitment was measured by mutual involvement, voluntary initiatives and new customer referrals. Service quality was measured by turnaround time, feedback on products, future borrowing intentions and customer recommendations. Switching barriers was measured by attractiveness of alternatives, switching costs and interpersonal relationships. Finally Customer retention was measured by rank position by customers, referrals by customers, positive ratings and future borrowings.

3.6 Validity and Reliability Tests

According to the Last Dictionary of Epidemiology, Reliability is the degree of stability exhibited when a measurement is repeated under identical conditions. Lack of reliability may arise from divergences between observers or instruments of measurement or instability of the attribute being measured. It's the degree to which an assessment tool produces stable and consistent results (Collins and Julie, 2006). Validity on the other hand refers to how well a test measures what it is purported to measure.

Using STATA, the researcher proceeded to test two kinds of validity of the instrument: Convergence and Discriminant validity. Convergence validity refers to the extent items tap into the same construct. Patterns of factor loadings indicate whether items converge as theoretically conceptualized. On the other hand, discriminant validity is the extent of indicators' ability to

separate themselves into different dimensions or constructs. It checks if items discriminate themselves as theoretically conceptualized. The loading pattern itself tells us much about the convergent and discriminant validity, with convergence validity indicated by high factor loadings and discriminant validity indicated by low cross-loadings. As can be seen on Appendix3, out of the elements in the study there was clear evidence of high factor loadings as demonstrated by how well factors separated themselves. There was also minimal cross loading involving less than three items (refer to Appendix C: validity tests table). Finally through questionnaire piloting using 15 members of staff from MAL, over 90% confirmed the clarity of the questions put forward.

Reliability test for the internal consistency of scales to be used on the instruments was measured using Cronbach’s alpha coefficient. Santos (1999) says that Cronbach’s alpha determines the internal consistency or average correlation of items in a survey instrument to gauge its reliability. Alpha (x) coefficient of 0.6 and above would indicate the instrument’s internal consistence (Sekaran and Bougie, 2010). As shown in Table 4 the variables were above 0.6 implying that the questions were reliable.

TABLE 4
Cronbach alpha coefficients

Factor	Cronbach alpha	No. of Items
Price Perception	0.9902	3
Customer Commitment	0.7518	3
Service Quality	0.9746	4
Switching Barriers	0.9746	4
Customer Retention	0.9057	4

3.7 Data Analysis and Presentation

Data Analysis is the process of systematically applying statistical and/or logical techniques to describe and illustrate, condense and recap, and evaluate data. According to Shamoo and Resnik (2003) various analytic procedures provide a way of drawing inductive inferences from data and distinguishing the signal (the phenomenon of interest) from the noise (statistical fluctuations) present in the data. An essential component of ensuring data integrity is the accurate and appropriate analysis of research findings. Improper statistical analyses distort scientific findings, mislead casual readers (Shepard, 2002), and may negatively influence the public perception of research. Integrity issues are just as relevant to analysis of non-statistical data as well.

Factor analysis was used to analyze the data for this survey. This essentially is a data reduction method used to reduce data from a large set of variables e.g. items in a questionnaire to a small set of variables known as components or factors. The purpose is to reduce a large set of variables (items) to smaller set (components or factors) that captures the maximum possible information of the original variables (items). Firstly, the five point likert scales on the questionnaires were codes as follows: Strongly Agree-1; Agree-2; Neutral-3; Disagree- 4, and Strongly Disagree- 5. Out of this output each respondents questionnaire was logged on an excel data table indicating the option indicated against each question. This proceeded for all the 200 questionnaires. The excel data table was then imported to STATA statistical software for exploration factor analysis. Before proceeding with further analysis of the variables, the researcher used Kaiser- Meyer- Olkin (KMO) measure of statistical adequacy to test the adequacy of the data for factor analysis. The overall KMO value for this study's data was 0.9251 and since this was above 0.5, the researcher concluded that the data was fit for factor analysis. The standards set under this analysis were that we will drop any variable with uniqueness of above 0.5. With these

standards, the researcher developed composite variables as theoretically conceptualized from the loadings for each factor after the analysis. This was used to undertake a regression output interpreting the relationship between the variables. The following is the proposed regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mathcal{E} \dots \dots \dots (i)$$

Where: Y= Customer Retention

X_1 = Price Perception

X_2 = Customer Commitment

X_3 = Service Quality

X_4 = Switching Barriers

\mathcal{E} = Error Term

($\beta_0, \beta_1, \beta_2, \beta_3, \beta_4$) are regression coefficients.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the study results and the interpretation, summary of findings and discussions of the study findings. Data has been analysed and summarized based on the influence of price perception on customer retention in MAL, the influence of customer commitment on customer retention in MAL; how Service Quality influences customer retention in MAL and; how Switching Barriers influences customer retention in MAL. The findings have been presented through tables, regression matrix and narratives. The data was collected in Nairobi County through structured questionnaires.

4.2 Response Rate

The study questionnaires were administered using the drop and pick method to the 210 respondents out of the customers served by MAL in Nairobi County. Out of these 203 were filled giving a response rate of 95%, which quite acceptable. A further 3 questionnaires were found to be erroneously filled up. The remaining 200 questionnaires were found to be duly completed. They were hence included in the final analysis.

4.3 Data Analysis Output Interpretation

The researcher subjected the variables through factor analysis using STATA statistical software to identify the variables' Eigen values- which explains the amount of variance explained by each factor.

4.3.1 Factor Analysis

The essential purpose for factor analysis exercise from a statistical point of view is to discover the underlying patterns in data and to find smaller number of variables- *factors*- which could

largely explain observed variables. Factor analysis was also essentially used since our study design has a correlation component, and hence the need to do a further analysis (regression) of the underlying factors .Exploratory factor analysis was used for this study, as we assumed no knowledge of the underlying patterns and we are not confirming whether any hypothesized patterns are supported by data. We are also interested with the uniqueness of a variable- the amount of variance unique to an item. We would want this to be as low as possible.

1-Uniqueness = communality, which is the amount of variance of an item explained by the factors. For this study, we are seeking retention of items with uniqueness of below 50%

TABLE 5
Factor Analysis

Factor	Eigen Value	Difference	Proportion	Cumulative
Factor1	12.09216	11.0675	0.7953	0.7953
Factor 2	1.05540	0.12280	0.0694	0.8648
Factor 3	0.93261	0.30477	0.0613	0.9261
Factor 4	0.62784	0.14561	0.0413	0.9674
Factor 5	0.48223	0.29840	0.0317	0.9991
Factor 6	0.18382	0.07593	0.0121	1.0112
Factor 7	0.10789	0.05874	0.0071	1.0183
Factor 8	0.04915	0.01183	0.0032	1.0215
Factor 9	0.03733	0.04009	0.0025	1.0240
Factor 10	-0.00276	0.00654	- 0.0002	1.0238
Factor11	-0.00931	0.00662	- 0.0006	1.0232
Factor12	-0.01593	0.00161	-0.0010	1.0222
Factor13	-0.01754	0.00305	-0.0012	1.0210
Factor14	-0.02059	0.01966	-0.0014	1.0196
Factor15	-0.04025	0.00707	-0.0026	1.0170
Factor16	-0. 04732	0.04801	-0.0031	1.0139
Factor17	-0.09533	0.02044	-0.0063	1.0076
Factor18	-0.11577	-	-0.0076	1.0000

Table 5 shows raw factor (unrotated), which indicates the relationship between an item and a factor. First column shows Eigen values- which indicate the amount of variance explained by

each factor. Proportion column represents the amount of variance explained by each factor. For example the first factor explains 79.53% of the total item variance and the first five factors explain 99.91% of the item variance. This implies that our five selected factors as per our conceptual variables explain a big chunk of the model variance.

4.3.2 Uniqueness of Variables

The researcher was also interested with the uniqueness of a variable- the amount of variance unique to an item. $1 - \text{Uniqueness} = \text{communality}$, which is the amount of variance of an item explained by the factors (refer to communality Table 6). It indicates the amount of item variance accounted for by all the factors. Low communalities (≤ 0.50) indicate items do not share much variance with extracted factors. Items with low communalities can be dropped. For this study, the researcher is seeking retention of items with uniqueness of below 50% and as can be observed (in table 6), most of our variables have a communalities of above 50% (uniqueness of below 50%), apart from two variables (volunteering and choice). This means that the variables share much variance with extracted factors.

TABLE 6
Communality Table

Variable	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Uniqueness
Price Policy	0.8519	-0.3171	-0.1621	0.3244	0.0129	0.0420
Pricing	0.8626	-0.3269	-0.1778	0.2894	0.0075	0.0336
Costs	0.8677	-0.3261	-0.1763	0.2591	0.0411	0.0409
Rank Position	0.7943	-0.0815	0.2128	0.0326	-0.2371	0.2599
Relationship	0.8087	0.0248	0.3750	0.0306	-0.2968	0.1158
Referrals	0.8461	0.0357	0.3035	0.0240	-0.2905	0.1058
Positivity	0.7012	-0.0006	0.3967	-0.0336	0.1973	0.3109
Involvement	0.7865	-0.0148	0.3577	-0.0103	0.2042	0.2114
Volunteering	0.4656	-0.0533	0.2458	-0.0091	0.3729	0.5808
Choice	0.6059	0.0799	0.1818	0.0687	0.1587	0.5635
Speed	0.8206	0.3822	-0.1704	0.0344	0.0438	0.1485
Feedback	0.8538	0.4186	-0.1434	0.0745	0.0147	0.0694
Satisfaction	0.8551	0.4021	-0.1672	0.0818	0.0346	0.0712
Borrowings	0.8579	0.3986	-0.1452	0.0840	-0.0217	0.0766
Interpersonal	0.9041	-0.1485	-0.1342	-0.2971	-0.0169	0.0539
Switch Costs	0.9067	-0.1313	-0.1586	-0.1391	-0.0261	0.0329
Alternatives	0.9183	-0.1535	-0.1558	-0.2657	0.0428	0.0365
Awareness	0.9067	-0.1374	-0.1442	-0.2861	-0.0085	0.0563

Table 7 shows a VARIMAX Rotation of the factors after the elimination of the variables with a uniqueness of above 0.5. This method is recommended if the researcher want extracted factors to be uncorrelated e.g. in regression analysis. Rotated factor loadings indicate how items load to the factors. Items loading highly on the same factor are assumed to share the same latent construct/component. Check for items that cross load and for items with low loadings. Items with low loadings, cross loading and/or with low communalities can be removed. As per the Table 7 however, there is no cross loading; only one factor Positivity is loading on factor 5 instead of factor 4.

TABLE 7
Rotated Factor Loadings

Variable	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Uniqueness
Price Policy			0.8175			0.0425
Pricing			0.8111			0.0324
Costs			0.7956			0.0418
Rank Position				0.5857		0.2727
Relationship				0.7524		0.1121
Referrals				0.7310		0.0999
Positivity					0.6712	0.2791
Involvement					0.6542	0.2036
Speed	0.7836					0.1485
Feedback	0.8248					0.0726
Satisfaction	0.8267					0.0680
Borrowings	0.8143					0.0745
Interpersonal		0.7535				0.0530
Switch Costs		0.7672				0.0355
Alternatives		0.7397				0.0385
Awareness		0.7475				0.0548

As seen from Table 7, the observable variables: price policy, pricing and Costs measure the latent variable “price perception”, and are loading on factor 3; rank position, relationship, referrals measure the latent variable “customer retention” and are all loading on factor 4; speed, feedback, satisfaction and borrowings measure the latent variable “service quality” and load on factor 1; Interpersonal, switch costs, alternatives and awareness measuring the latent variable “switching barriers” load on factor 2 and involvement measuring latent variable customer commitment load on factor 5. However variable Positivity measuring “customer retention” is loading on the wrong factor (to factor 5 instead of 3). This was ignored when doing composite variables for regression model.

The above loadings as described were formulated into composite variables as per the conceptual model as follows: price perception = price policy+ pricing + costs; customer

retention= rank position+ relationship+ referrals; customer commitment= involvement; service quality= speed + feedback + satisfaction + borrowings and switching barriers = Interpersonal + switch costs + alternatives + awareness. The researcher then regressed customer retention against price perception, customer commitment, service quality and switching barrier to obtain the regression output shown in Table 8

4.4 **Regression of Factors on Customer Retention**

In statistics, linear regression is an approach to modeling the relationship between a scalar dependent variable Y and one or more independent variables denoted by X . The case of one explanatory variable is called simple linear regression. For more than one explanatory variable, it is called multiple linear regressions. (This term should be distinguished from multivariate linear regression where multiple correlated dependent variables are predicted, rather than a single scalar variable.) If the goal is prediction, or forecasting, linear regression can be used to fit a predictive model to an observed data set of y and X values. Given a variable y and a number of variables $X_1... X_p$ that may be related to y , linear regression analysis can be applied to quantify the strength of the relationship between y and the X_j , to assess which X_j may have no relationship with y at all, and to identify which subsets of the X_j contain redundant information about y .

Standard linear regression models with standard estimation techniques make a number of assumptions about the independent variables, the dependent variables and their relationship. The following are the major assumptions made by standard linear regression models with standard estimation techniques

Note - The assumptions helps in getting the “BEST LINE OF FIT” (Unbiased estimators for the estimated coefficients). Normality (Every variable should be symmetrically distributed (no outliers)) Linearity (The variables have linear relationships among

them) No Multicollinearity (Any two independent variables should not have very high correlation) No heteroskedasticity (or there is Homoskedasticity – the variance of the error term should be constant. For our study using factor analysis and dropping variables that did not have common variance, the remaining variables with acceptable communality of 50% and above were deemed fit for further statistical analysis like regression.

After regressing, price perception, customer commitment, service quality and switching barrier on the dependent variable (customer retention), we get the output shown in Table 8. Out of the 200 responses, we only have 168 total observations, meaning that our data had some missing information.

TABLE 8
Regression Model

Linear regression	Number of obs = 165
	F(4, 160) = 101.19
	Prob > F = 0.0000
	R-squared = 0.6822
	Root MSE = 2.8553

Customer_Retention	Coef.	Robust Std. Err.	t	P> t	Beta
Price_Perception	.130236	.0663158	1.96	0.051	.1690844
Customer_Commitment	.9848361	.2140071	4.60	0.000	.3477636
Service_Quality	.1076018	.0440279	2.44	0.016	.1918068
Switching_Barriers	.1251633	.0516583	2.42	0.017	.2318238
_cons	1.69628	.8165388	2.08	0.039	.

The F Value is the Mean Square Model divided by the Mean Square Residual, and in our case it's F=101.19. The p-value associated with this F value is very small (0.0000). These values are used to gauge whether the independent variables reliably predict the dependent

variable. In this study it can be concluded that the group of variables price perception, customer commitment, service quality and switching barriers can be used to reliably predict customer retention (the dependent variable) it's Note worthy that this is an overall significance test assessing whether the group of independent variables when used together reliably predict the dependent variable, and does not address the ability of any of the particular independent variables to predict the dependent variables. R-Square is the proportion of variance in the dependent variable (customer retention) which can be predicted from the independent variables (price perception, customer commitment, service quality, and switching barriers). This value indicates that 68% of the variance in customer retention can be predicted from the variables price perception, customer commitment, service quality, and switching barriers. This is an overall measure of the strength of association, and does not reflect the extent to which any particular independent variable is associated with the dependent variable. Root MSE is the standard deviation of the error term, and is the square root of the Mean Square Residual (or Error).

The coefficient (parameter estimate) for price perception from Table 8 is .13 meaning, for every unit increase in price perception, a .13 unit increase in customer retention is predicted. Or, for every increase of one percentage point of price perception, customer retention is predicted to be higher by .13. The coefficient for customer commitment is .98 meaning for every unit increase in customer commitment there is a .98 increase in the predicted customer retention. For service quality, the coefficient is .11, where a unit increase in the independent variable, customer retention would be .11 units higher. For switching barriers, the coefficient of .12 means that a unit increases in the variable will lead to customer retention being higher by .12 units. The coefficient for price perception is not significantly different from 0 using alpha of 0.05 because its p-value of 0.051 is larger than 0.05. The coefficient for customer commitment (.98) is

significantly different from 0 because its p-value of 0.000 is definitely smaller than 0.05 and even 0.01. The coefficient for service quality (.11) is significantly different from 0 using alpha of 0.05 because its p-value of 0.016 is smaller than 0.05. The coefficient for switching barriers is significantly different from 0 using alpha of 0.05 because its p-value of .017 is less than 0.05.

The beta coefficients are used by some researchers to compare the relative strength of the various predictors within the model. Because the beta coefficients are all measured in standard deviations, instead of the units of the variables, they can be compared to one another. In other words, the beta coefficients are the coefficients that you would obtain if the outcome and predictor variables were all transformed standard scores, also called z-scores, before running the regression. Because the coefficients in the Beta column are all in the same standardized units it is easy to compare these coefficients to assess the relative strength of each of the predictors. In table 8, customer commitment has the largest Beta coefficient, .35 and price perception has the smallest Beta, 0.17. Thus, a one standard deviation increase in customer commitment leads to a 0.35 standard deviation increase in predicted customer retention, with the other variables held constant. And, a one standard deviation increase in price perception, in turn, leads to a 0.17 standard deviation increase in predicted customer retention with the other variables in the model held constant.

From table 8, the study's fitted regression model becomes

$$Y = 1.7 + 0.13X_1 + 0.98X_2 + 0.11X_3 + 0.12X_4 \dots\dots\dots (ii)$$

4.5 Discussions on Findings

This section discusses the findings obtained with regard to influence of price perception, customer commitment, service quality and switching barriers on customer retention. The

discussion is based on the outcome of our regression model on answers given by the respondents and attempts are been made to relate the findings to the literature reviewed in chapter two.

4.5.1 Discussion on Price Perception and Customer Retention

The regression model shows a weak but positive relationships exists between price perception and customer retention ($\beta_1=0.13$). The magnitude of the coefficient is weak and the sign is positive. The relationship however is not significantly different from 0, as the p- value is above 5% (0.051).The result contradict Abrat & Russell (1999), Schriver (1997), Martin (2007), Mouri (2005), Kollmann (2000) findings where they found that price is the most significant factor for retaining the existing customers . However it seems for some financial services sectors, price may not be the most significant factor. We therefore reject H_1 .

4.5.2 Discussion on Customer Commitment and Customer Retention

The regression analysis in table 8 indicates that there does exist a strong and positive significant relationship between customer commitment and customer retention ($\beta_2=0.98$ p-value=0.000). The relationship indicates that higher scores of customer commitment are associated with higher scores of customer retention. This indicates that as customer commitment increases, customer retention also increases and when customer commitment decreases, customer retention also decreases, holding all the other variables constant. According to Patterson and Smith (2000), when customers are aware and their perceptions of other suppliers offerings as differentiated service- price, service or quality of technical outcomes, their commitment tend to be less. Hypothesis H_2 is therefore accepted.

4.5.3 Discussion on Service Quality and Customer Retention

The regression output in Table 8 indicates that a weak and positive correlation was observed between service quality and customer retention ($\beta_3=0.11$, p-value=0.016). The relationship

however is significant as the coefficient is significantly different from 0. This indicates that weak scores of service quality are associated with moderate scores of customer satisfaction. Hence, a weak positive relationship was found between service quality and customer retention. This indicates that as service quality increases, customer retention increases and vice versa. The empirical studies of Reichheld (1996) and Ranaweera and Neely (2003) are consistent with this finding. They both found that there was a positive association between perceived service quality and retention or customer repurchasing. This finding also somehow corroborates Sharma and Patterson's (2000) assertion that the greater the perception of quality, the stronger is the relationship commitment. We therefore accept hypothesis H_3 .

4.5.4 Discussion on Switching Barriers and Customer Retention

The regression model also depicted a weak and positive relationship between switching barriers and customer retention ($\beta_4=0.13$, p-value=0.017). The coefficient is significantly different from 0. This implies that as switching barrier increases, customer retention also increases and vice versa. This however, affirms the findings of Lee et al. (2001) who tested and confirmed the positive effect of switching barriers on customer retention. Likewise, Ranaweera and Neely (2003) asserted that those who show a certain level of indifference and also have positive perceptions of the service, are the least likely to leave as their service expectations are fulfilled, and, they see no gains from switching. Hypothesis H_4 is therefore accepted.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section presents the, conclusions of the study and the recommendations for policy and practice. The section also presents the suggestions for further research.

5.2 Conclusions

The main aim of the study was to examine whether significant relationships exist between price perception, service quality, customer trust, customer commitment, switching barrier and customer retention of MFIs in Kenya, with reference to Micro Africa Ltd. It can be concluded that, customer commitment had a very strong and positive significant relationship with customer retention. Weak and positive significant relationship was found between price perception, service quality, switching barriers and customer retention. All the four variables in the conceptual framework of the research had positive relationships with customer retention.

Therefore, for the general objective of the study, very significant positive relationships between the selected factors and customer retention is not true for all the variables. There exist a very significant positive relationship between customer commitment and customer retention, and a weak positive relationships between, price perceptions, service quality, switching barriers and customer retention. This may be due to some observable variables being dropped from further analysis in the study due to low common variance (high individual unique variance)

The first objective of the study was to determine whether price perception influences customer retention of MFIs in Kenya. The study found out that Price perception does to some extent influence customer retention as the relationship between price perception and customer

retention from our regression table is positive but a weak one. This may be due to the variable of significant being below 95% confidence level in our model.

The second objective of the study was determining the extent at which commitment of customers influences their retention in MFIs in Kenya. Customer commitment influences customer retention to a great extent as the relationship between customers' commitments and customer retention is a very significant and positive one as per the regression output of this study. This is expected given the huge significant positive relationship depicted by our model.

The third objective of the study was find out the role switching barriers plays in influencing retention of the MFIs customers in Kenya. There exists positive relationship between switching barriers and customer retention, but a weak one as per the result of our regression model. This means that one percentage change in switching barriers will a have 13% change in customer retention, holding all the other factors constant. Therefore, switching barriers play some role in influencing customer retention of MFIs in Kenya.

The fourth objective of the study was to find out the extent service quality affects customer retention of the MFIs in Kenya. Service quality influences customer retention of MFIs to some extent as the relationship between service quality and customer retention from our model is positive but a weak one. This implies that as a percentage change in service quality has a 10% change in customer retention, holding all the other factors constant.

5.3 Recommendations of the Study

Microfinance institutions in Kenya in general, and Micro Africa Ltd in particular should focus more on customer commitment, without neglecting the other factors. For commitment of customers, the key areas are: customer involvement in various activities, encouraging customers to volunteer information on the business and other matters, rewarding and encouraging new

customer referrals from the existing ones and making customers comfortable for them to continue seeking services in future.

For price perception, some effort on the area of transparency in pricing information, flexibility and reasonable service charges should be dispensed. For service quality turnaround time for credit products, timely feedback on service improvements more products should also be looked into, though not to some great extent. Finally on switching barriers, area of interest should be on interpersonal relationships between staff and customers, industry switching costs and the attractiveness of alternatives.

The above conclusions show a great need for certain strategies to be applied by organizations for customer retention to continue to be high. It suggested that management of Micro Africa Ltd, and other micro financial institutions should pay close attention to customer commitment by investing more into customer relationship management that can inhibit switching and increase customers' dependency. Also there is the need to focus on switching barrier factors such as transaction time and to open more efficient branches closer to customers, thereby making switching to other financial providers somehow unattractive. Also important is giving much attention to the retention of more customers by increasing customer satisfaction through the provision of accurate and timely information on products and services to its customers. Micro Africa Ltd in particular and microfinance institutions in Kenya as a whole should also focus on ensuring customers get service quality through the continuous provision of fast, reliable and error-free transactions. It is vital to maintain and build customer trust through provision of best deals that can be relied upon to customers.

5.4 Recommendations for Further Studies

Since the results of the study are based on consumers' perceptions only, future research should examine the relationship and congruence between consumers and service providers' perceptions on customer retention. This will help the Kenyan Microfinance industry to understand better whether both consumers and MFIs have the same opinion regarding retention issues. Also, while this study found that price perception, service quality and switching barriers had a weak but positive relationship with customer retention; future research may also attempt to thrust the same variables on an industry perspective, as opposed to case study research design involving one MFI in the sector. There is also a need to explore some other constructs such as convenience issues that consumers and financial institutions would value most.

Finally there are other moderating/ control variables like gender, age, loan cycle, business category, etc which were not tested in this study, but play a crucial role in influencing customer retention of MFIs significantly. It will be interesting to see the results of the conceptual framework including them as controls.

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APPENDICES

APPENDIX A

Questionnaire

Instruction:

Please circle the number that best matches your opinion

Please answer each statement below by putting a circle around the number that best reflects your degree of agreement or disagreement with that statement.

1=SA-Strongly Agree, 2=A-Agree, 3=N-Neutral, 4=D-Disagree, 5=SD-Strongly Disagree

A. Factors that affecting customer retention

S/N	Factor 1: Price Perception	S A	A	N	D	S D
1.	Micro Africa takes effective ways to help us know its pricing policies of products and services.					
3.	The interest rate and other charges offered by Micro Africa are reasonable					
4.	Micro Africa is offering flexible pricing for various services that meet my needs.					

S/N	Factor 2: Customer Commitment	S A	A	N	D	S D
6.	Micro Africa involves us in various activities					
7.	I frequently volunteer information to my financier					
10	I am quite comfortable with Micro Africa and plan to seek more services in future.					

S/N	Factor 3: Service Quality	S	A	A	N	D	S	D
11.	I am happy with the products offered currently by my financial provider (Micro Africa).							
12.	Compared to other providers, I am satisfied with the time it takes for me to get a loan from my financier							
13.	My provider grants timely feedback to us on service improvement							
14.	I am planning to borrow additional loan products in future							

S/N	Factor 4: Switching Barriers	S	A	A	N	D	S	D
	1.1 Interpersonal Relationship							
16.	I feel there is a bond between Micro Africa and myself							
	1.2 Switching Cost							
19.	It would cost me a lot of money to switch from Micro Africa to another financial provider							
	1.3 Attractiveness of Alternatives							
24.	I believe in Micro Africa more than other financial service providers.							
25.	I'm very likely to switch to another financial service provider							

B. Customer Retention

S/N		S	A	A	N	D	S	D
26.	If I had needed financial services now, Micro Africa would be my first choice.							
27.	I plan to continue my relationship with Micro Africa in future							
28.	I would recommend Micro Africa as the best financial service provider in the area							
29.	I have said positive things about Micro Africa to others							

APPENDIX B

Authority to Carry Research



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KCAU/SGS.15/gl.02

Tuesday, July 21, 2015

Your Ref

To whom it may concern,

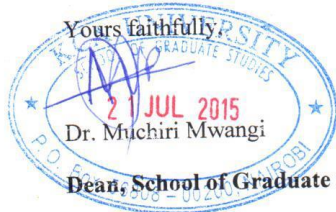
Dear Sir/Madam,

RE: RESEARCH PROJECT

This is to certify that **KIILU J. KYALO REG NO. 13/01866** has been permitted by the School of Business and Public Management to carry out research on the topic **“FACTORS AFFECTING CUSTOMER RETENTION IN MICROFINANCE INSTITUTIONS IN KENYA”**. The research is purely for academic purposes and for the partial fulfillment of the requirements for the Master of Business Administration in Corporate Management degree program.

Kindly assist the student with information where possible.

Yours faithfully,



Dean, School of Graduate Studies & Research

APPENDIX C

Validity Tests Table

. rotate, varimax norm blanks(0.40)

```
Factor analysis/correlation      Number of obs   =   164
Method: principal factors      Retained factors =    5
Rotation: orthogonal varimax (Kaiser on)  Number of params =   80
```

Factor	Variance	Difference	Proportion	Cumulative
Factor1	3.93638	0.64387	0.2589	0.2589
Factor2	3.29251	0.29252	0.2166	0.4755
Factor3	3.00000	0.44441	0.1973	0.6728
Factor4	2.55559	0.14983	0.1681	0.8409
Factor5	2.40575	.	0.1582	0.9991

LR test: independent vs. saturated: chi2(153) = 4677.95 Prob>chi2 = 0.0000

Rotated factor loadings (pattern matrix) and unique variances

Variable	Factor1	Factor2	Factor3	Factor4	Factor5	Uniqueness
pricepolicy			0.8061			0.0420
pricing			0.7997			0.0336
costs			0.7827			0.0409
rankposition				0.6151		0.2599
relationship				0.7574		0.1158
referrals				0.7260		0.1058
positivity					0.6460	0.3109
involvement					0.6615	0.2114
volunteering					0.5925	0.5808
choice					0.4511	0.5635
speed	0.7805					0.1485
feedback	0.8225					0.0694
satisfaction	0.8199					0.0712
borrowings	0.8099					0.0766
interperso~l		0.7445				0.0539
switchcosts		0.7656				0.0329
alternatives		0.7332				0.0365
awareness		0.7368				0.0563

(blanks represent abs(loading)<.4)

Factor rotation matrix

	Factor1	Factor2	Factor3	Factor4	Factor5
Factor1	0.5131	0.4760	0.4387	0.4065	0.3905
Factor2	0.7763	-0.2920	-0.5575	-0.0015	-0.0362
Factor3	-0.3289	-0.3181	-0.3307	0.5851	0.5822
Factor4	0.1581	-0.7652	0.6221	0.0456	-0.0212
Factor5	0.0318	-0.0387	0.0200	-0.7002	0.7119