

**FACTORS INFLUENCING CUSTOMER LOYALTY IN THE  
BANKING INDUSTRY: THE CASE OF NMB DODOMA**

By

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A Dissertation Submitted in Partial Fulfilment of the Requirements for the Degree of  
Master of Business Administration of the University of Dodoma

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## CERTIFICATION

The undersigned certifies that he has read and hereby recommends for an acceptance by the University of Dodoma, a dissertation titled **“Factors influencing Customer Loyalty in the Banking Industry: The case of NMB Dodoma”** in partial fulfilment of the requirements for the degree of Master of Business Administration of the University of Dodoma.

.....  
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(Supervisor)

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However, it should be noted any shortcomings on this research are entirely belong to me.

## **DEDICATION**

This work is dedicated to Mr Salum Mohamed and Madam Hanim Rashid.

## ABSTRACT

There is a debate in services marketing literature on the relationship that exists between service quality and customer satisfaction on the one hand and customer loyalty on the other. While there are studies which have shown a positive and strong relationship between variables of the first set to customer loyalty, there are also studies which reported no relationship. This study was put in place to investigate on the factors which influenced customer loyalty. The study was undertaken by taking the case of the banking industry, particularly, NMB in Dodoma. The study specifically, intended to identify factors affecting customer loyalty in banking industry, analyse the relationship between perceived service quality and customer loyalty and analyse the relationship between customer satisfaction and the customer loyalty. The study was conducted using a holistic case study design by considering only one Bank (NMB main branch in Dodoma). Data were collected from 102 respondents, of which 100 were customers and two were from the management team. While data from customers were gathered using questionnaire, that from management was obtained using interview. Data were principally analyzed using a linear regression that was supplemented by frequencies and percentages. SPSS and Excel spreadsheet were of significant help in undertaking data analysis.

A host of factors have been found to impact customer loyalty. These include Bank location, customer services and types of accounts offered, internet and mobile banking service, Bank charges and bank offers, among others. Results further, showed that, offering quality services had no relationship with customer loyalty; however, they show positive and a significant relationship between customer satisfaction and customer loyalty.

The study recommends that, Bank managers should always consider the needs of

customers. The loyalty comes in the customers once their stated as well as unstated needs were fulfilled. It can be the current needs or the ones which could be desired in future.

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## **ABBREVIATIONS**

<b>CRM</b>	Customer Relationship Management
<b>NMB</b>	National Microfinance Bank
<b>SERQUAL</b>	Service Quality Measurement Tool
<b>SPSS</b>	Statistical Package for the Social Sciences

# CHAPTER ONE

## OVERVIEW OF THE STUDY

### 1.0 Introduction

This is an introductory chapter of this study which traces the background information, statement of the problem, research objective and research questions. The chapter also provides the significance of the study and ends by showing the plan of this report.

### 1.1 Background Information about Customer Loyalty

Customer's loyalty is not a new concept in marketing; it was there since from so many centuries ago. In the past, ancient Roman Empire had often used the loyalty of their army even Napoleon Bonaparte, the most feared French commander of the early nineteenth century. He achieved extraordinary results through the unrelenting loyalty of the soldiers under his command (Srivastva, *et al.*, 2000). Coming to the technical, civilized world of the 21<sup>st</sup> century, marketers try to capture market share with the help of loyal customer base. Customer loyalty has been universally recognized as a valuable asset in competitive markets (Srivastva, *et al.*, 2000). It is hard to meet all customers' needs at once and therefore, it is essential to prioritize certain customers and their needs. A competitive survival is achieved by meeting the most important needs of the most important customers. By accomplishing this and meeting the needs of the customers whose needs are not being met by competitors, a company can achieve a competitive advantage (Stone, *et al.*, 2000).

A customer loyalty leads to higher customer retention rate and to continuous business success, even in situations where failure to satisfy customers would normally cause an early termination of business (Reichheld, 1999). When placing a value on a product, brand loyalty is a key consideration because a highly customers' loyal base generates

larger sales and profits (Ergin, 2007). A brand without a loyal customer's base is usually vulnerable and the brand's only value is its potential to create loyal customers (Aaker, 1996). Loyalty enhances the process of attracting new customers. Satisfied and loyal clients tend to provide a brand exposure and reassurance to new customers through "mouth to mouth" communication. On the other hand, a potential customer has a better evaluation of a brand if a brand is perceived as having a loyal customer base (Kotler, 1999). An importance to creating a loyal customer arises from that, it costs more to create a new customer than to retain an existing one. For example, According to Reichheld (1999) the cost of creating a new customer is five times more than that of retaining an existing one. Research suggests that a loyal customer buys instead of being sold (Kotler, 1999). It also costs less to serve loyal customers than new customers because the company knows a lot about them and how to get touch with them. In other words, marketing transactions are routinized and therefore less expensive because a non-routinized transaction is subject to bargaining with its resulting loss of efficiency (Darido and Uttal, 1989). Besides, a loyal customer is less price-sensitive and refers the company's products to other people (Kotler, 1999).

The development of customer loyalty has become the important focus for marketing strategy in recent years, due to the benefits associated with retaining existing customers (Gwinner et al., 1998; Hagen and Matthews, 2001). The past decade has seen that, many firms adopted a customer focus approach through a formal programme of customer relationship management (CRM) (e.g. Brown 2000; Kala and Robinson 1999; Peppers and Rogers 1997). Recent advances in information technology have provided the tools for marketing managers to create a new generation of CRM tactics, one such tactic, that several firms have considered, and which many have adopted, is

to establish a customer loyalty programme. Most companies strive for customer loyalty, and considerable efforts are made to maintain a loyal customer base (Nodman, 2004).

Customer Loyalty is considered as key value of marketing strategy in the banking service and others (Kotler, 2004). It is possible to attain long-term success in the banking sector by providing excellent customer service. It is an effective strategy for taking full advantage from the engagement, between customers with organizations and also offering a competitive edge to survive in this tough market environment (Nodman, 2004). As a matter- of-course, the banking sector is not an exception to this concept; all of the banks attempt to make a difference by using their customer service strategy and give their customers an exclusive experience with their products and services. The primary aim of them is to assure and win their loyalty for their company (Kuusik, 2007).

In banking industry, the customer also considers the service quality as one of the important factor which attracts him/her to be loyal. Excellence in service quality is a key to achieve customer loyalty, which is the primary goal of business organizations, due to the advantages of customer retention (Ehigie, 2006). Today, the increasing awareness among bank customers of their rights, changing demands and highly competition requires a constant progress in service quality from the bank for their customers to stay loyal (Nazia, 2012).

Tanzanian banking industry is growing in size, resources and capabilities. Each bank is trying to improve its competitive position by offering a variety of services, to meet customer needs and expectations (Mao, 2010). Retaining profitable customers has become increasingly difficult in a competitive environment, where other financial

institutions specialise in offering attractive services and prices to customers (Leverin and Liljander, 2006). Customer services play an important role in increasing the customer loyalty and customers highly consider the price of these services (Haroon, 2010). Furthermore, a key element of customer satisfaction is the nature of the relationship between the customer and the provider of the products and services i.e. banks (Devlin, 2001).

Customer satisfaction is in fact, the most significant factor when creating a customer loyalty because, when customers are enough satisfied, they will become loyal and make their next purchase from the same company (Haroon, 2010). The level of satisfaction is always high when the customer gives minimum price and gets maximum of usage and profit (Jamal and Kamal, 2004). In the competitive banking industry, customer satisfaction is considered as the essence of success. High customer satisfaction is important in maintaining a loyal customer base. To link the service quality, customer satisfaction and customer loyalty is important (Kumar *et al.*, 2009). Most of the banks set their strategies towards increasing satisfaction and loyalty of customers through the quality of service (Devlin, 2001). Achieving customer satisfaction, and thus loyalty, is the primary goal for most service businesses. This is so because an increased customer satisfaction and customer loyalty (retention) leads to improved profits, positive word-of-mouth, more stable customer base, and lower marketing expenditures (McDougall and Levesque, 2000; Bowen and Chen, 2001; Tsaur *et al.*, 2002; Wirtz, 2003; Petrick, 2004).

In fact, the levels of satisfaction have been positively associated with customer loyalty in the form of the share of wallet and business-to-business setting (Keiningham and Perkins-Munn, 2003). Loyal customers become active ambassadors for the business

(Devlin, 2001). Finally, committed consumers demonstrate the maximum degree of customer loyalty, which means that, they make repeat purchases in the long-term and are ready to give good product and service recommendations to their relatives and friends. This positive consumer behaviour is associated with adding value to brands and building a strong and stable relationship (Foss and Stone, 2001).

## **1.2 Statement of the Problem**

Financial service sector of Tanzania has a number of banks which further increases the competition and complexity among the banks. Allocating target market becomes vital to the long-run profitability and ultimate survival of banks services (Alam and Khokhar, 2006). It also helps the bank to gain the profit and reduce marketing cost. In previous times, many banking services were aware of understanding brand image, service quality and customer satisfaction which are accepted as a key determinant of customer loyalty (Payne, 1993).

Customer loyalty is one of the most important indicators used to evaluate the quality of services and customer satisfaction offered by an organization. Therefore, gaining customer loyalty becomes a key objective for banking organizations, which decide to adopt a relationship marketing perspective (Filip and Anghel, 2007). In order to accomplish this, each bank wishes to offer an outstanding service towards their customers. So, customer loyalty can be said as a remarkable strategic objective for businesses (Rowley, 2004).

Literature on the factors which influence customer loyalty in banking industry especially in Tanzanian context is very scanty. Nevertheless, according to (Beerli *et al.*, 2004) the factors which have influenced the customer loyalty in banking industry in the developed world are perceived quality, satisfaction and switching cost. In

addition, some scholars argue that switching costs, as a key moderating variable, can significantly influence customer loyalty through such determinants as customer satisfaction (Fornell, 1992; Lee *et al.*, 2001; Oliver, 1999) and perceived value (Neal, 1999; Woodruff, 1997). Other studies also conducted in the developed countries prove that, customer satisfaction does not directly influence customer loyalty (Norizan and Nor, 2010; Norizan and Salaheldin, 2009; Roland and Werner, 2010; Dev and Heesup, 2011; Schweizer, 2008). Fascinatingly, Duffy (2003) is convinced that, customer loyalty is influenced by a combination of factors, which are always unique for different situations. These variations of results are directed by Rowley (2004) as interesting research gaps for further study. Following from the above discussion and the position of Duffy (2003), this study was thus put in place to investigate on what really influences customer loyalty, in order to fill the knowledge gap that exists.

### **1.3 Research Objectives**

The main objective of this research was to assess factors influencing customer loyalty in the banking industry. In order to meet this grand objective, the study intended to address the following specific objectives.

- i) To identify factors affecting customer loyalty in banking industry;
- ii) To analyse the relationship between perceived quality and the customer loyalty, and;
- iii) To analyse the relationship between customer satisfaction and the customer loyalty.

## **1.4 Research Questions**

For the purpose of meeting the above research objectives, answers for the following research questions were sought.

- 1) What are the factors which affect customer loyalty in banking industry?
- 2) Is there any relationship between perceived quality and the customer loyalty?
- 3) Does the customer satisfaction lead to customer loyalty?

## **1.5 The Significance of the Study**

The study has significance to knowledge and managerial application. For the case of knowledge contribution, the findings from this research generated new information that has enriched the existing literatures on customer loyalty in Tanzania. Furthermore, this research enhanced the understanding of customer's loyalty and the importance of customer care in improving service quality. With respect to managerial application, the findings showed managers, the importance of customer's loyalty which could be used as a tool to reduce costs and to retain customers. Banks have a starting point for understanding the customer loyal behaviour, and also for finding out the factors that influenced customers' actions in relation to banking institutions for their survival.

## **1.6 Research Report Disposition**

This chapter presents background information to the problem, statements of the research problem, objectives, and significance of the study. Chapter two presents the definitions of key terms, theoretical perspectives, and empirical review of the literature and then recapitulates it into a conceptual framework that guided the study. At the end of this chapter, the knowledge gap has been identified showing the need for conducting the study at the funds. Chapter three offers a detailed discussion on

methodological issues. It demonstrates the research design employed, research approach, selection of the respondents, the sample taken and the sampling techniques used. The chapter winds up with matters pertaining to data collection, data analysis and credibility issues. Chapter four presents the research findings as guided by research objectives. The chapter further gives an interpretation and discussion of the findings. Finally, chapter five summarizes the findings of the study. It shows the contribution of the study to the body of knowledge, management and policy implications. The chapter ends by showing the limitations of the study and finally suggests new areas for a further research.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

The literature review of this study covers the areas of definition of the key terms, theoretical framework which include the model of customer loyalty and the measurement of customer loyalty, empirical support and conceptual framework of the study. The chapter winds up with the conclusion which shows the research gaps.

#### **2.1 Conceptualization of the Key Terms**

This section provides the conceptual understanding of the key terms used in this study. The terms are particularly, customer, service quality, customer satisfaction and customer loyalty. The terms are discussed hereunder.

##### **2.1.1 Customer**

A customer is a person, company or other entity which buys goods and services produced by another person, company or other business (Schweizer, 2008). According to Dev and Heesup, (2011) a customer is a person, company or other entity which buys goods and services produced by another person, company or other entity. Sometimes, the terms customer and consumer are used interchangeably both in scholarly works and in popular press. Actually, the term consumer stands for the end users of the goods or services. On that understanding, Njogo & Ajibola (2012) define a consumer as someone who acquires goods or services for a direct use or ownership rather than for resale or use in production and manufacturing.

### **2.1.2 Service Quality**

Service quality is a concept which has no definite definition or description. This is partly because the word service and the word quality are themselves hard to describe and partly because the concept of service quality varies with respect to service industry. However, researchers have tried to define service quality in the following ways:

Service quality is the overall evaluation of a specific service firm, which results from comparing that firm's performance with the customer's general expectations, of how firms in that industry should perform (Parasuraman *et al.*, 1988). According to Fogli (2006), service quality is a global judgement or attitude relating to a particular service; the customer's overall impression of the relative inferiority or superiority of the organization and its services. In fact, service quality is a cognitive judgement. Kasper *et al.*, (1999) defines service quality as the degree to which the service offered can satisfy the expectations of the user.

According to these definitions, customers are the sole judges of service quality. If they perceive it to be good service, then it is. Customers assess the quality of service by comparing their expectations with perceptions.

### **2.1.3 Customer Satisfaction**

Regarding customer's satisfaction, there are some differences in the definitions. Sureshchandar, et al., (2002) did a comprehensive review of customer satisfaction literature and they showed that, there are three general components: response, focus and time in customer satisfaction. The authors define customer satisfaction as a response (emotional or cognitive), that pertains to a particular focus (expectations,

product, consumption experience), and occurs at a particular moment in time (after experience or consumption).

According to Chu, (2002), a broad definition of customer satisfaction is that, it is an emotional response to the use of a product or a service; and it is also a complex human process, which involves cognitive and affective process, as well as other psychological and physiological influences. Actually, customer satisfaction is a summary of a psychological manner in which a composite of customers' feelings about the unexplained expectations and his/her previous consumption experiences are encompassed.

#### **2.1.4 Customer Loyalty**

A number of scholars have presented their views about customer loyalty. Nonetheless, there is no universal agreed definition of the term customer loyalty (Evanschitzky & Wunderlich, 2006). In fact, what seems to be an agreement among researchers is that; customer loyalty has two dimensions: behavioural and attitudinal dimensions (Skogland & Siguaw, 2004; Bill *et al.*, 2005).

Customer loyalty with regards to the behavioural response is expressed over time by some decision making unit, with respect to one or more alternatives. Behavioural loyalty is a customer's overt behaviour toward a specific product or services in terms of repeat purchasing pattern, that can be determined as actual purchase frequency, the proportion of occasions in which a specific brand is purchased as compared to the total number of purchased brands and or the actual amount of purchase (Back & Parks, 2003; Ball *et al.*, 2004). The committed consumers demonstrate the maximum degree of customer loyalty, which means that, they make repeat purchases in the long-

term and are ready to give a good product and service recommendations to their relatives and friends (Bell *et al.*, 2005).

Customer Loyalty is defined as a deeply held commitment, to repurchase or re-patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour (Oliver, 1999). Customer loyalty is the result of consistently positive emotional experience, physical attribute-based satisfaction and perceived value of an experience, which includes the product or services (Lars Gronhold *et al.*, 2000). Recently, several researchers have tended to consider loyalty on a multidimensional basis, by adding an attitudinal to a behavioral loyalty concept (Back & Parks, 2003; Bell *et al.*, 2005; Olsen, 2007).

Customer loyalty is both a long-term attitude and a long-term behavioural pattern, which is reinforced by multiple experiences over time (Terblanche and Bushoff, 2006). After putting into consideration both behavioural and attitudinal aspect of loyalty, Van Looy *et al.*, (2003) define customer loyalty, as customer behaviour characterized by a positive buying pattern during an extended period (measured by means of repeat purchases, frequency of purchase) and driven by a positive attitude towards the company and its products or services.

Therefore, customer loyalty is both behavioural and attitudinal loyalty, it is imperative for organizations to build behavioural and attitudinal loyalty, in order to maximize tangible returns to the organization.

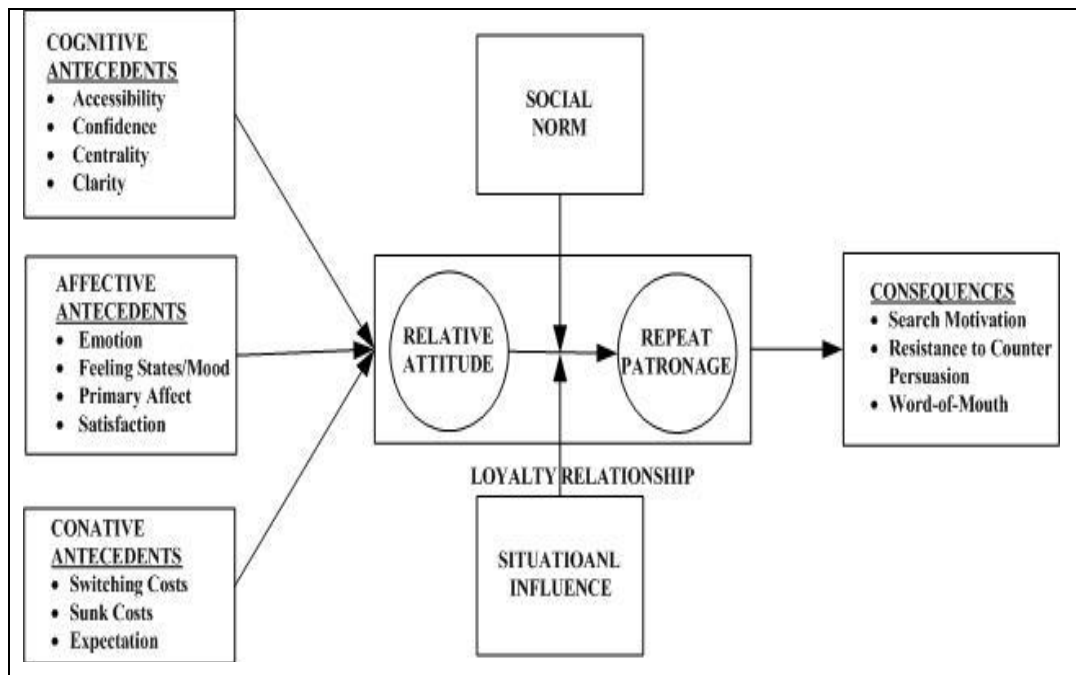
## 2.2 Theoretical framework

This section provides customer loyalty model that examines the customer loyalty concept. The model of customer loyalty explains the relationship between variables that influence customer loyalty.

### 2.2.1 Customer Loyalty Model

In 1994, Dick and Basu proposed a framework of customer loyalty (Figure 2.1). In this model, customer loyalty is viewed as the strength of the relationship between an individual's relative attitude and repeat patronage. Social norms and situational factors have mediated influence on the loyalty relationship. According to the model, there are three antecedents of relative attitude that include cognitive, affective, and conative, which are identified as contributing to loyalty, along with motivational, perceptual, and behavioural consequences. This model is shown pictorially as presented in Figure 2.1 below.

**Figure 2. 1: The Model for Customer Loyalty**



**Source:** Dick and Basu (1994).

Dick and Basu (1994) stated that, customer loyalty is a high frequency repeat purchase behaviour accompanying with active attitude. They cross-classify the previously developed concept of relative attitude with repeat patronage (at two levels—high and low of each), that leads to the four specific conditions associated with loyalty. These are discussed below as follows.

- i) Loyalty: a high relative attitude with a high repeat patronage, it is the most preferred of relative attitude and repeat patronage. Such loyalty is inherent positive attitude, emotions, preferences and behaviour of the uniform external repeat patronage. It is most stable and valuable to the enterprise.
- ii) Spurious loyalty: a low relative attitude accompanied by high repeat patronage, is spurious loyalty characterized by attitudinal influences on behaviour. It is conceptually similar to the notion of inertia (Assael, 1992) in that, a consumer perceives little differentiation among brands in a low involvement category and undertakes repeat purchase, on the basis of situational cues, such as familiarity (caused by shelf positioning) or deals.
- iii) Latent loyalty: a high relative attitude with low repeat patronage that reflects latent loyalty—a serious concern for marketers. This is probably due to a marketplace environment, where non-attitudinal influences such as subjective norms and situational effects are at least equal, if not more influential than attitudes in determining patronage behaviour (Assael, 1992).
- iv) No loyalty: a low relative attitude combined with low repeat patronage which in fact shows an absence of loyalty (Assael, 1992).

There are many management implication as proposed by Dick and Basu (1994), for managing service loyalty, they pointed out that, post patronage satisfaction could be managed through "thank you" notes or visiting customers to ensure that expectations

have been fulfilled (especially for auto or electronic repair services), and sensitivity to switching costs may also be enhanced through innovative "point accrual" programmes.

This model has several strengths which include but not limited to; indication of the meaningful distinctions that can be drawn between those who buy goods and services strictly from habit or convenience, and those whose repeat purchase behaviour is accompanied by a genuine attachment towards the good or service. The model also shows the segmentation of customers on the basis of their attitude and purchase behaviour, which provides marketers with a strategic understanding and ability to assess and track each loyalty segment, and implement marketing strategies that target the different types of loyalty. Nevertheless, the model also has got some weaknesses, like; being silent about perceived service quality. The model fails to identify the contribution of the service quality in influencing customer loyalty. In addition, the model fails to show that, there are customers who have negative attitude about certain services offered by company or organization.

Despite of these weaknesses of the model, this research would adopt this model, because it suits the need of this research in terms of identifying customer loyalty in terms of buying behaviours. This study actually did not operationalize actual purchase behaviour, of customers. Customers purchase behaviour was taken as a proxy of actual purchase behaviour because according to Ajzen and Fishbein (1980), behaviour is a good predictor of actual action. Further, customer loyalty in this study was infact treated along the line of customers' purchase behaviour.

### **2.2.2 Measure of Customer Loyalty**

Researchers have proposed various theories to measure customer loyalty. In fact, reviewing from literature, one can find situations where researchers recommend between two to five approaches of measuring customer loyalty. Those propose two methods include for instance Peltier and Westfall (2000). Those who recommend three methods are for example, Janes and Sasser (1995). There are also researchers who recommend four different approaches (example; Narayandas, 1996; Gronholdt, *et al*, 2000). In fact, there are authors who recommend five scenarios of measuring customer loyalty (Berry *et al.*, 1996).

For the case of using only two methods of measuring customer loyalty, Peltier and Westfall (2000), propose the most important indexes of customer loyalty which are; 1) will of repurchase, and; 2) will of recommendation. With regards to measuring customer loyalty using three approaches, Janes and Sasser (1995) propose, 1) repurchasing will: a major index for loyalty, 2) basic behaviour: using transaction data to evaluate customers' behaviour such as consumption time, frequency, and quantity, and; 3) extended behaviour: behaviour to introduce new customer, such as recommendation and brand establishment.

On the other hand, as far as measuring customer loyalty using four methods is concerned, Narayandas (1996) proposes indexes such as: 1) repurchase intending, 2) resistance to switching to competitor's product that is superior to the preferred vendor's product, 3) continue with current provider, and; 4) willingness to recommend preferred vendor's product to friends and associates. On the same line of thinking, Gronholdt *et al*, (2000) proposes indexes of: 1) will of repurchase, 2) will of other products of the same company, 3) switching to other competitor, and; 4) will of

recommendation. Finally, with regards to operationalizing customer loyalty using five methods, Berry *et al.*, (1996) propose indexes like: 1) will of word of mouth, 2) possibility of recommendation, 3) possibility of complaints, 4) possibility to pay more, and; 5) possibility to switch over.

In summary, researchers assess customer loyalty with different indexes, but most of them include will of repurchase and will of recommendation. For this study, a customer's loyalty was measured along three of the four items recommended by Narayandas (1996). These were; 1) repurchase intention, 2) continue with current provider, and; willingness to recommend preferred carrier's product to friends and associates.

## **2.3 Empirical Support**

This part presents mostly three issues which are factors that influence customer loyalty, empirical support on the relationship between customer satisfaction and customer loyalty, and the relationship between perceived service quality and customer loyalty. These are presented hereunder alternatively as follows.

### **2.3.1 Factors Affecting Customer Loyalty**

Some researchers investigated the possible individual factors affecting customer loyalty, since every person has a different combination of characteristics and each one is unique; their perceptions, analyzes, expectancies and behaviours are different (Stone, *et al.*, 2000). Moreover, they experience different feelings and thoughts and they act differently, even under the same situations. The factors affecting customer loyalty depend on the services that are provided by the organization/company. So, the factors that have been mostly mentioned in the literature are such as; friendship, brand

image, service encounter satisfaction, perceived core service quality, social regard and social comfort ((Bitner *et al.*, 1990; Stern *et al.*, 1998; Kotler, 2004; Keller, 1999; Butcher *et al.*, 2001; Rust and Oliver, 2000). These are further discussed in detail below.

### ***Service Encounter Satisfaction***

Traditional way described the service encounter satisfaction as the interaction that occurs between customer and employees, and it has been frequently discussed in the marketing literature (Bitner *et al.*, 1990). Also, the service encounter is the dyadic interaction between a customer and service provider (Surprenant and Solomon, 1987). It has also been modelled to impact long-term customer relationships as well as overall satisfaction. Service encounter satisfaction is distinguished from overall satisfaction and it has been defined as dis/satisfaction with a service encounter (Bitner and Hubbert, 1994). Additionally, customer relationships are built and destroyed which are based on service encounter, in a time and any service provided can be critical to the service outcome (Stern *et al.*, 1998). It is the degree of overall pleasure or contentment felt by the customers, the results from ability of the service fulfilling the customer's desires, expectations and customer's needs in relation to the service (Philip, 2002). Service performance takes place in what has been termed as the service encounter; the time frame during which consumers directly interact with service providers (Czepiel *et al.* 1985). All elements of encounter activities such as: the facility, waiting times, and service personnel are considered as service encounter and have been described to affect customer loyalty.

### ***Brand Image***

Various definitions of a brand appeared in the marketing literature. The brand is a name, term, sign, symbol or design or combination of them, which is intended to identify the goods of one seller or group of sellers and to differentiate them from those of competitors (Kotler, 2004). According to Lafley (2009), in order to be successful, images and symbols must relate to, and indeed, exploit, the needs, values and lifestyles of consumers in such a way that, the meanings involved give added values, and differentiate from this brand to other brands. The customer loyalty is often viewed as resulting from brand knowledge, followed by brand image that in fact raise consumer loyalty (Keller, 1999). In addition, the self-congruence theory states that, consumers evaluate products to match with their self-image (Belk, 1988). Higher congruence between self-image and product image, would influence consumer attitudes or behaviour regarding brand preference, brand attitude, product purchase decisions, customer satisfaction, and repurchase intention (Graeff, 1996).

### ***Friendship***

The customer's perceptions of social closeness with service employee are the evidence of the degree of familiarity, self- disclosure and rapport (Gremier, 1995). Loyalty can be increased throughout personal friendship (Kokko and Moilanen, 1997). Two relational outcomes are considered to associate with friendship to be comfort and respect (Argyle, 1992). According to Taylor (1991), great emphasis on relationships is the intimate sphere, especially love relationships.

### ***Received Core Service Quality***

Perceived core service quality is a quality of products or services which are provided by the company. It offers to exceed the customer expectations. Actually, service quality is considered from the view of point of the customer. Zeithaml (1998), defines perceived service quality as measured by customer awareness and the consumers' assessment of the overall excellent of products or services. Zahorik and Rust (1992) found out that, the modelling of perceived quality directly influences customer loyalty and provides more diagnostic abilities. Furthermore, the perceived service quality is the best model to impact customer retention and behaviour intentions (Hennig and Klee, 1997). Looking through a financial perspective, the success of activities carried out by sports organizations is closely associated with the quality of services offered to customers and making sure customers, get highest level of satisfaction from such services (Kotler, 2004). In terms of effective management, it is of great importance to understand what the customer thinks about service quality offered, by the organization (Rust and Oliver, 2000) in order to make them loyal.

### ***Social Regard***

Social regard is defined as making the customers feel important (Barnes, 1997). Social regard has also been defined as the genuine respect, deference, and interest shown to the customer by the service provider, such that the customer feels valued or important in the social interaction (Butcher *et al.*, 2001). Additionally, some empirical evidence indicates that, actions closely related to social regard increase the relationship strength (Barnes, 1997). When the customers perceive that, the employees take care of them, or respect them the relationship strength increases. It is this strong relationship between customers and firms' employees which become the foundation of customer loyalty.

### ***Social Comfort***

Social comfort is defined as the customer's feeling of anxiety or relaxation arising from the social interaction, with an individual service employee. The customers feel much comfortable to be one example of a satisfactory service experience (Argyle, 1992). If the salesperson clicked with the customer at the initial contact, then this was the prompt to consider establishing a relationship (Beatty *et al.*, 1996). Customer rapport has been found to be associated with overall satisfaction, repurchase intentions and word-of-mouth (Gwinner, 1998). It is thus expected that the conceptualization of social comfort may have either a direct or indirect path to loyalty.

### **2.3.2 Relationship between Customer Satisfaction and Customer Loyalty**

The relationship between satisfaction and loyalty has been observed in several studies (Anderson and Sullivan, 1993; Fornell, 1992). Actually, Fornell (1992) examined 27 different businesses, and found strong correlations between satisfaction and loyalty. Fornell further found out that, loyal customers are not necessarily satisfied, but satisfied customers tend to be loyal customers. Highly satisfied customers are much more loyal than satisfied customers and any drop in total satisfaction results in a major drop in loyalty (Akbar and Parvez *et al.*, 2009).

Bloomer and Kasper (1995) demonstrate that, the satisfaction-loyalty relationship is not simple and straight forward, as the level of elaboration on the part of the customer must act as a moderator between satisfaction and loyalty. Furthermore, Oliver *et al.*, (1992) argue that, the relationship between satisfaction and loyalty is non-linear, meaning that, in case satisfaction increases above a certain level, customer loyalty will increase rapidly. Loyalty and satisfaction are related, although also clearly distinct Oliver (1999). Most of the researchers found that, customer satisfaction is the

predictor of customer loyalty (Faullant *et al.*, 2008; Leverin and Liljander, 2006; Terblanche, 2006). This is again supported by Horstmann (1998) who states that, there is a strong and positive relationship between customer satisfaction and loyalty. With higher customer satisfaction the level of loyalty increases. Further, Pont and Mc Quilken (2005) found out that, customer satisfaction and customer loyalty are related to each other, furthermore, they pointed out that, satisfied customers are not always loyal customers, something which different from the findings of Fornell (1992). Cronin and Taylor (1992) found that, customer satisfaction has a significant effect on purchase intentions in service sector. Analogous to that, Tee *et al.*, (2012) found a significant positive relationship between customer satisfaction and customer loyalty. Other several studies have indeed found satisfaction to be a leading factor in determining loyalty (Sit *et al.*, 2009; Mensah, 2010; He and Song, 2009). These studies have concluded that there is a significant relationship between customer's satisfaction and loyalty.

On the side, Al-Wugayan and Pleshko (2010) and Pleshko (2009), pointed out that, there is no relationship between customer satisfaction and loyalty. In another empirical study, Bowen and Chen (2001), identified a close relationship between customer's satisfaction and customer's loyalty. However, it is concluded that, satisfaction is not the only factor that influences customer loyalty.

### **2.3.3 Relationship between Perceived Service Quality and Customer Loyalty**

Ruyter *et al.*, (1998), found a positive relationship between perceived service quality and preference loyalty and price indifference loyalty. Velotsou *et al.*, (2004), also found that perceived service quality has a positive association with customer loyalty, being defined as a function of expected quality. Perceived service quality influences

the customer's intentions to buy a specific brand or the portfolio of products and brands provided by a given organization. Evidence suggests that perceived service quality influences consumer behaviour and intention (Stone, *et al.*, 2000). It is well known that, evaluative judgments of service quality could significantly influence service loyalty and bank loyalty (Veloutsou *et al.*, 2004). Tyler and Stanley (1999), investigated the expectations of the largest companies regarding the quality of the service provided by the banks, and found elements of operational quality: reliability, assurance (technical knowledge of bank structure), empathy (understanding customer needs, trust), responsiveness and pro-activity. The authors also found that, perceived service quality has a positive association with customer's loyalty, being defined as a function of expected quality (generated from market communication, image, word of mouth and customer needs) and experienced quality (generated from functional and technical quality).

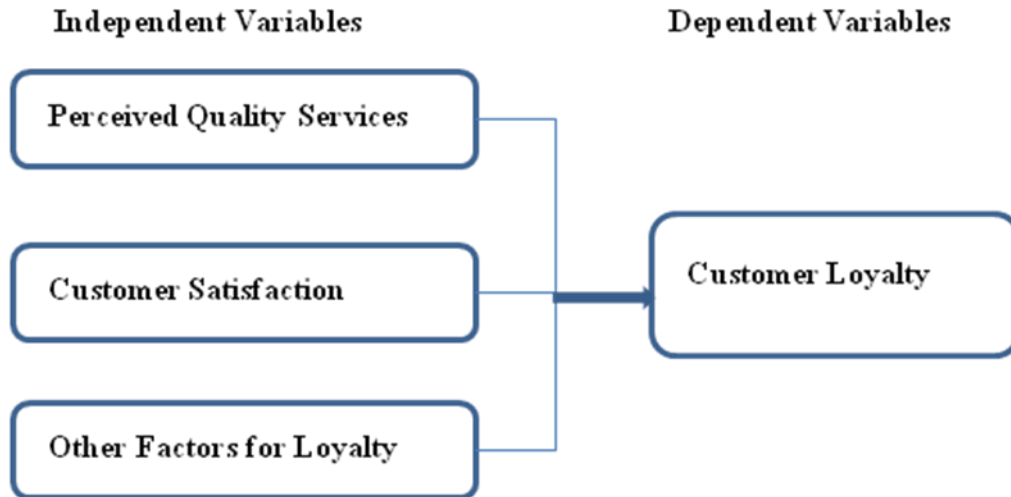
Some other researchers also provided the strong empirical evidences supporting the fact that, service quality increases the customer intentions to remain with any company. For example, Buzzell and Gale (1987) found out that, service quality results in increased market share and repeated sales that ultimately leads to customer loyalty. Service quality has been found to have a direct impact on customer loyalty (Boulding *et al.*, 1993; Parasuraman *et al.*, 1991).

Some researchers however, are in the view that, customer satisfaction rather than service quality exerts stronger influences on buying intentions of the customers (Cronin and Taylor, 1992). This view is supported by Ehigie (2006) who reported that, perceived service quality has strong influence on customer loyalty, but this impact is less powerful than in the case of satisfaction.

### 3.4 Conceptual Framework

The conceptual framework shown below guided this study.

**Figure 2. 2: Conceptual Framework**



**Source:** Researcher's Reflection of the Reviewed Literature

#### **Description of the Model**

This model represents the relationships between the independent variables (perceived service quality, customer's satisfaction and other variables influencing customer's loyalty) on one hand and the dependent variable (customer loyalty) on the other hand. According to the literature, both perceived service quality and customer satisfaction have positive relationship with customer loyalty. Of course, there have also been reported cases of no relationship, especially between perceived service quality and customers

's loyalty. In addition to that, literature has indicated that, apart from customer's satisfaction and perceived service quality, there are other factors which do also influence customer's loyalty. These factors have also been shown in the model. The

arrow in the model is predicting the relationship as evidenced by various reviewed studies.

## **2.5 Knowledge Gap**

Customer loyalty is of prime importance for business organizations. However, relationship between customer's satisfaction and perceived service quality with customer's loyalty is not clear as per the reviewed literature. Literature shows that, there is a positive relationship between customer's satisfaction and customer's loyalty as well as between perceived service quality and customer loyalty. Further, there are other empirical findings which show that, there is no relationship between perceived services quality and customer's loyalty. Furthermore, literature reports other factors which are also responsible for creating customer's loyalty apart from customer satisfaction and perceived service quality. It seems that, these factors are context and cultural specific. Due to these confusions and predictions, this research was put in place in order to contribute into these knowledge gaps. It was predicted that, the study would come up with different context specific factors which influence customer loyalty. For the case of the relationship between dependent and independent variables as defined here, there was also expectations of contributing, into the existing debate regarding the nature and extent of relationship between the factors.

## **2.6 Tested Hypotheses**

Based on two research objectives namely; to analyse the relationship between perceived quality and the customer loyalty, and to analyse the relationship between customer satisfaction and the customer loyalty, two hypotheses were formulated and tested. These were.

- 1) There is a relationship between perceived quality and customer loyalty.
- 2) There is a relationship between customer satisfaction and Customer loyalty.

The hypotheses were based on support from available literature, for example; Gilbert and Veloutsou, 2006; Oliver (1994) for the first hypothesis and He and Song, 2009; Lee et al., 2000) for the second hypothesis.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Introduction

This chapter is organized into research design that was applied for the study and the reasons for its application. The approach to the study is also explained here. Other issues put in black and white are the study setting, population and sample size, sampling techniques employed and data collection methods. The chapter also discusses about data collection procedure, data analysis, issues of credibility of findings as well as ethical considerations.

#### 3.1 Research Design

Research design is an outline of the systematic and scientific procedures adopted in conducting a study (Saunders *et al.*, 2007). According to Kothari (2004), a research design is an arrangement of collecting and analyzing data in a manner that is relevant to the research purpose. Therefore the main purpose of the research design, is to avoid gathering irrelevant information that has no fundamental pertinence to the research enquiry.

This study applied an explanatory cross-sectional survey design. An explanatory research is used to establish relationship between variables (Key, 1997). Studies that establish causal relationship between variables may be termed as explanatory studies. The emphasis here is on studying a situation or a problem, in order to explain the relationship between variables (Saunders *et. al.*, 2007). Examples of studies on service quality, satisfaction and behavioural intentions, issues that have applied this type of design are (for example, Hurley and Estelami, 1998; Garretson and Clow, 1999; Rundle-Thiele and Mackay, 2001; Ame, 2005; 2009, etc.).

From the time frame point of view, the study collected data and information cross-sectionally.

According to Easterly-Smith *et al.*, (2002); Robson, (2002); as well as Saunders, *et al.*, (2007), cross-sectional studies often employ the survey strategy. In fact, cross-sectional studies have a greater flexibility in taking care of time and financial constraints like in this case. It also helps to avoid hassle of seeking for respondents more than once and is more likely to have a high response rate as opposed to longitudinal study, which often suffers from mortality.

### **3.2 Research Approach**

There are commonly two main approaches to research, namely; quantitative and qualitative research. Quantitative research is rooted in the natural sciences, where a researcher works with an observable social reality whose end point is the derivation of law-like generalisation. This approach puts emphasis on quantification of constructs, which are then subjected to complex statistical analysis (Remenyi, et al., 1998). On the other hand, qualitative research is rooted in the social sciences and is based on the way, people experience social phenomena in the world in which they live. This approach stresses on the socially contracted nature of reality, the intimate relationship between the researcher and what is researched, and the situational constraints that shape inquiry (Denzin and Lincoln, 1997). Recent developments in research however, stress on the importance of hybrid methodology which actually mix methods. Authors like Creswell, (1994) as well as Saunders, *et al.*, (2007), the show significant advantages of mixing methods in research situations. Among the advantages is improving validity and reliability of findings.

This study therefore, employed mixed methods approach by triangulating methods starting from data collection methods to analysis. By so doing, it is believed that, validity and reliability of the findings were improved. It is also argued by Gill and Johnson (1992) that, survey design is well suited by mixed methods approach, because the design lies somewhere in the middle of the research approach continuum.

### **3.3 Study Setting**

This study was conducted in Dodoma Tanzania. The reason for selecting Dodoma was twofold. First, it was due to convenience to the researcher. Actually, Kothari (2004) considers convenience as one of the most important considerations, for the researcher to consider when making selection of the study setting. The second reason was that, in the meantime, Dodoma is a fast growing town, and thus obtaining diverse types of bank customers was highly anticipated. Apart from selecting Dodoma, the study was further conducted by considering National Microfinance Bank (NMB). The reason for selecting the bank was that, the researcher was assured access to data and information by the bank management. Under NMB, Mazengo, which is the biggest NMB branch in Dodoma, was taken as the study station.

### **3.4 Study Population and Sample**

The population is all individuals of interest to the researcher; it is the full set of cases from which a sample can be taken (Saunders, *et al.*, 2007). The population of this study constituted NMB customers and management team in Dodoma region. However, for the purpose of this study, only those customers who visited NMB Mazengo branch and the management of the branch, when this study was conducted constituted the population.

On the other hand, according to Munn and Drever (1996), a sample is a small group of respondents drawn from the population in which the researcher is interested, in gaining information and drawing conclusion. In most cases researchers use samples and not whole population due to the fact that, sampling saves restrictions of time, money, resources and often access (Saunders, *et al.*, 2007; Marczyk, *et al.*, 2005). This study took a total of 102 respondents, of which 100 were customers and two were from the management team. It is argued by Hogg and Tanis (1978) that, 30 observations are adequate for analysis and reporting purposes. On the other hand, (Aczel, 2000) contends that, a sample greater than 30 is better for improvements of estimates of population parameter values, from sample statistics. Based on these arguments, a sample size of 102 was considered to be highly satisfactory. Furthermore, Babbie (2004) considers a sample size of at least 100 as quite sufficient in many research situations.

### **3.5 Sampling Techniques Employed**

For the sake of this study, the systematic sampling technique was used to select customer (respondents) who took part of this study. Systematic sampling is a method of selecting sample members from a larger population, according to a random starting point and a fixed, periodic interval (Lohr, 1999). Typically, every "n<sup>th</sup>" member is selected from the total population for inclusion in the sample population (Aczel, 2000). In this particular method of sampling, the study employed a step of 2. In fact, many studies done in Tanzania that employed this technique, also employed a step of 2 (Ame, 2005; 2009; Temu, 1997; Rutashobya, 1992). The sampling frame for this study consisted of NMB customers and actually existed, however, it was not well

organized. Thus, customers were approached as they joined in the bank branch for services.

In general, the sampling technique employed assisted the researcher to collect data swiftly because, it was possible to see all the customers who entered to bank in a given day. Furthermore, there was no hunting of respondents because all individuals who participated in the study, were obtained under one roof. Thus, the technique indeed saved time and money. According to Cochran, (1977) systematic sample spreads more evenly over the population, and is therefore considerably more precise than stratified random sampling. Moreover, the technique is better in terms of representing the population than simple random sampling (Saunders, et al, 2007).

On the other hand, the management personnel who participated in this study, were selected based on virtue of their positions. That is, they were selected purposively. According to Kothari (2004), selection of respondents who normally provide qualitative data is not based on representation of the population. For that matter, individuals who are information rich are the ones to be targeted. Thus, operations and marketing managers were the ones agreed by the management of the bank to help, in providing data and information. Even if the researcher did not influence selection of these individuals, it was a blessing in disguise because, indeed, they provided adequate and reliable information. It is known that, normally, information from the top management suffers from good wording syndrome, this was avoided.

### **3.6 Data Collection Methods**

This study employed both primary as well as secondary data. Primary data were collected from customers while secondary data were obtained from documentary

review. According to Fisher, (2000), multiple methods, in data collection have an advantage of improving validity as well as the reliability of the study findings. This study used mixed methods which led to the collection of quantitative together with qualitative data. Structured questionnaire generated quantitative data, while the use of direct interview gave a rise to qualitative data.

For the case of primary data collection, two methods were used, namely; structured questionnaire and direct interview. Structured questionnaire was used to collect data from customers. According to Munn and Drever (1996), questionnaire a set of printed or written questions with a choice of answers, devised for the purposes of a survey or statistical study. This technique of data collection was found proper for gathering data from customers because, there was a need to obtain modest amount of data. Furthermore, the sample size was large to the extent that, other methods like interview could have required a considerable amount of time. On the other hand, direct interview was employed to collect data from the management team. The method was specifically used because, the type of data required from this sampling unit were qualitative. Further, people at management level are normally pressed with time, thus an attempt to obtain data from them using methods other than direct interview becomes futile. Furthermore, the method was employed in order to dodge good wording syndrome, by creating a chance to ask additional questions. Samples of both instruments that were used to collect data from respondents (questionnaire and interview guide) are shown as appendix 1 and 2 respectively at the end of this report.

With regards to secondary data, various secondary sources were consulted. These included; reports, journals articles, books, internet materials, among others as recommended by Doyle, (2003). These data were found important as they

supplemented primary data, something that was hoped to have improved validity of findings.

### **3.7 Data Collection Procedure**

Data collections were done after pilot testing the questionnaire. This was found to be modest because it normally improved the clearness and cleanness of the instruments, so that respondents could understand it the same way. According to Janesick (1998), pilot testing the instrument is important because of improving validity and reliability, apart from allowing the researcher to begin developing and solidifying rapport with participants as well as an effective communications patterns. For the case of the questionnaire, the pilot was done to ten customers who were simply selected conveniently. According to Fink (1995), the minimum number for pilot testing must be ten which was met by this study. With respect to an interview guide, two experienced researchers were requested to look at the guide and give comments. On the same regard, the supervisor gave a go ahead after comments and final improvements. After pilot testing, the instruments were adjusted accordingly before data collection. The structured questionnaire was then translated in Swahili language, in order to reduce the risk of misunderstanding. Thereafter, the respondents filled in the questionnaires and returned them to the researcher on the spot. This was well directed because it took an average of about 15 – 20 minutes, to complete filling the questionnaire. However, for the case of interview guide, the researcher used English as the managers were very conversant with this language.

After data were collected, cross-checking for errors was done. After that, data were entered into a computer using SPSS data editor after coding as recommended by

Zikmund, (2003) who contends that important parts of data analysis include editing, coding and processing.

### **3.8 Data Analysis**

Data analysis refers to the transformation of raw data into a form that make it easy to understand and interpret. Describing responses or observations is typically the first form of analysis (Naidoo, 2008; Roberts-Lombard, 2006; Cant et al., 2005; Zikmund, 2003). There are two types of data analysis which are qualitative and quantitative. According to Babbie (2004), qualitative data analysis is the non-numerical examination and interpretation of observations, for the purpose of discovering underlying meanings and patterns of relationships while quantitative data analysis, is the numerical representation and manipulation of the observations, for the purpose of describing and explaining the phenomena that those observations reflect.

Thus, in this study, data were analysed using both quantitative as well as qualitative techniques. Quantitative data analysis on the one hand, was carried out in two stages. In the first stage the descriptive statistics were performed in order to summarize and describe the characteristics of data collected. According to Fisher and Marshall (2009), descriptive statistics are the numerical procedures or graphical techniques used, to organize and describe the characteristics of a given sample. The characteristics of data collected were demonstrated by summarizing the demographic profile of the respondents, in terms of sex, age, education and occupation. The second stage involved the analysis of Linear Regression, which was used to measure the associations and relationship between variables of interest in this study. This technique was employed because according to Azcel (2000), it is one of the strongest

analysis methods, as it controls the unwanted extraneous variables to come into analysis.

Qualitative data analysis on the other hand was done by the use of explanation building and pattern matching of data, and information as recommended by Miles and Huberman (1994).

### **3.9 Reliability and Validity**

Validity is the extent to which a test measures what it claims to measure. It is vital for a test to be valid in order for the results to be accurately applied and interpreted (Kendra and Cherry, 2009). According to Andrich, (1981) as well as Leary, (2004), reliability refers to the consistency or dependability of a measurement technique. Results are referred to as reliable, if the same results can be reproduced under a similar methodology, then the research instruments are considered to be reliable. To achieve reliability and validity in this study, the following were done.

- a) Selection of the respondents was based on the established sampling procedures for the quantitative data.
- b) Data were collected by the main researcher alone. This enabled to avoid reliability errors which could arise due to observer errors and observer bias.
- c) Pilot test of the study instruments was done after which some revisions were made, to eliminate ambiguities in the instruments. This brought about consistency in understanding the questions by all the respondents.
- d) Definition of key terms and their operationalization was adopted from past studies.

### **3.10 Ethical Concerns**

Ethical considerations are the moral principles and values that govern the actions and decisions of an individual (Jobber, 2004). The first ethical issue that has been encountered is the confidentiality of the respondents and organization. The request to use the bank as the case study for the research was done through the official request letter from the University of Dodoma, which was sent to NMB branch manager. Then, the manager approved it and gave permission to the researcher to collect data. However, there was joint agreement between the researcher and the branch manager, that very minimal information about the bank should be included in the research. It was also agreed upon that, there should be no intrusion of the privacy (both customer and the organization as a whole) of any kind in the process of the research. For these reasons, very minimal information about the bank was documented, and the researcher did not include any personal details of the research participants/respondents, throughout the research.

It was also agreed upon that, the researcher would strictly use data gathered for academic purpose only, and that a copy of the research report would be made available to the organization.

Finally, the research only involved participants after getting their consent. An adequate information about the research, was made available so that participants could make decision on whether to participate in the study or not.

## **CHAPTER FOUR**

### **FINDINGS AND DISCUSSION**

#### **4.0 Introduction**

This chapter presents the findings of the study as per the data collected from the field. The chapter begins by providing the demographic characteristics of the main respondents of the study (customers). The chapter continues by presenting findings which have been presented, according to the chronology of the research objectives. The findings are immediately followed by their discussion.

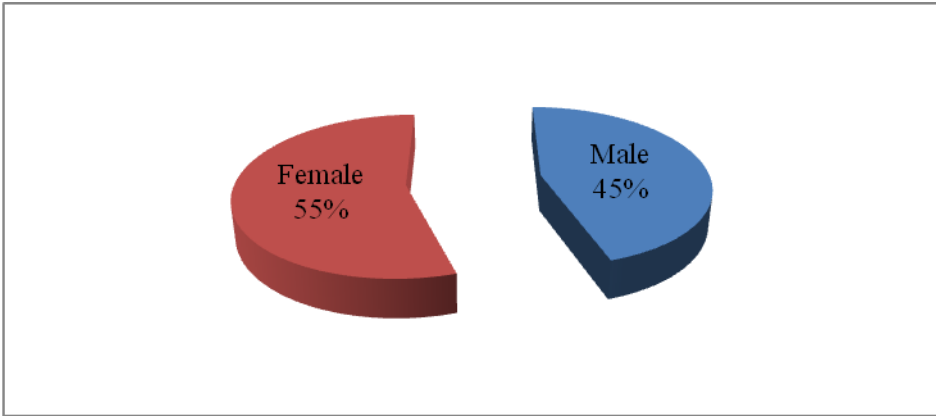
#### **4.1 Demographic Characteristics of the main Respondents (Customers)**

This section provides the demographic characteristics of the main respondents (customers), which were thought to be important at least for categorizing the type of respondents, involved in the study. The main variables included in this presentation are sex, age, level of education attained and occupation of respondents. These are presented below in this order as follows:

##### **4.1.1 Sex of Respondents**

This study involved 102 respondents of which 100 were customers and two, were from the management. All the demographic characteristics involved, only the 100 respondents which were the main participants for the study. Thus, out of the 100 customers who participated in this study, 55% were females while the remaining 45% were males. This may be depicted in Figure 4.1 presented below.

**Figure 4. 1: Composition of Customers by Sex**



**Source:** Field Data, (2014).

**4.1.2 Age of Respondents**

The age of the respondents ranged between 20 years and below to above 50 years. The age of the respondents were further grouped in intervals of 10 years. The numbers of the respondents below 20 years were 8, while that of respondents whose age ranged between 21 – 30 years were 14. On the other hand, the number of the respondents whose age ranged between 31 – 40 years was 20 while the number of respondents whose age ranged between 41 – 50 was 38. Finally, the number of respondents whose age was above 50 years was 20. This information has been summarized in Table 4.1 below.

**Table 4. 1: Distribution of Respondents by Age**

<b>Age</b>	<b>Frequency</b>	<b>Percent</b>
Below 20 years	8	8
21 – 30 years	14	14
31 – 40 years	20	20
41 – 50 years	38	38
Above 50 years	20	20
Total	100	100

**Source:** Field Data, (2014).

#### **4.1.3 Level of Education Attained by Respondents**

The highest educational level attained by the respondents was master’s level and the minimum level was primary education. The primary education was comprised of 22 of the respondents, followed by 38 of them who attained secondary education, while 20 of them attained diploma education. In addition, 18 respondents had attained degree level of education, and 2 of them attained master level. Table 4.2 shown below shows the educational level of the respondents.

**Table 4. 2: Distribution of Respondents by Educational Level**

<b>Education level</b>	<b>Frequency</b>	<b>Percent</b>
Primary Education	22	22
Secondary Education	38	38
Diploma Holder	20	20
Degree Holder	18	18
Masters Holder	2	2
Total	100	100

**Source:** Field Data, (2014).

#### 4.1.4 Occupation of Respondents

With regard to occupation of respondents, 17 of them were students, 7 farmers and 30 were business persons. Moreover, 24 of them were public servants and 22 were private sector employees. Table 4.3 below summarizes the distribution of the respondents based on their occupation.

**Table 4. 3: Distribution of Respondents by Occupation**

<b>Occupation</b>	<b>Frequency</b>	<b>Percent</b>
Students	17	17
Farmers	7	7
Business persons	30	30
Public servants	24	24
Private sector employees	22	22
Total	100	100

**Source:** Field Data, (2014).

#### 4.1.5 Summary of Demographic Characteristics of Respondents

In this study, the respondents were analyzed in four different parameters i.e. sex, age, educational level and occupation. Analysis by sex shows that male customers were less than female customers. They constituted only 45% of the respondents while females constituted 55% of them. Analysis by age shows that, predominant group was that of 41 – 50 years which comprised 38% of them. The below 20 years was the lowest group in this research which comprised of only 8% of the respondents. The analysis by education level shows that, majority of the respondents had a secondary level of education, which constituted 38% of the respondents and there was no one who had not attended school. This means that, one can infer that, the respondents had good educational background to evaluate banking service quality. Finally, the analysis

by occupation of the respondents show that, majority of them were business persons which constituted 30% of the respondents.

## **4.2 Findings and Discussion**

This section is devoted for the findings of the study. The approach of analytic strategy as proposed by Miles and Huberman (1994), has been used in presenting the findings. That is, the findings have been presented by following the chronology of the research objectives.

### **4.2.1 Factors Affecting Customer Loyalty in Banking Industry**

The first objective of this research was, to identify factors affecting customer loyalty in the banking industry. To address this objective, three issues were looked at, namely; length of time customers have been operating with the bank, bank related factors affecting customer loyalty and extent of loyalty of customers with respect to events. These are presented below as follows.

#### **4.2.1.1 Time Duration Customers have stayed with the Bank**

The findings indicated that, 13% of the respondents have been using the bank for less than a year, while 27% of them have been using the bank for 1 – 2 years. Moreover, it has been found out that, 40% of respondents have been using the bank for 3 – 4 years. Finally, 20% of them have been using the bank for 5 years and above. Table 4.4 shown below summarizes the distribution of the respondents, basing on the time duration that they have been using the bank.

**Table 4. 4: Distribution of the Time Duration Customers has Stayed with the Bank**

<b>Time</b>	<b>Frequency</b>	<b>Percent</b>
Less than a year	13	13
1 – 2 years	27	27
3 – 4 years	40	40
5 years and above	20	20
Total	100	100

**Source:** Field Data, (2014).

#### **4.2.1.2 Bank Related Factors Affecting Customer Loyalty**

In order to understand bank related factors affecting customer loyalty, the respondents were asked to mention the factors which affect their loyalty with the bank. The first and foremost factor indicated to affect customers loyalty, was the Bank location which was rated by 26.9% of respondents. Other factors which were rated as the ones responsible for affecting customer’s loyalty, according to their order of importance were; customer services (rated by 23.1% of respondents), types of accounts offered (rated by 18.5% of respondents) and internet and mobile banking service (rated by 15.8% of respondents). Others are; bank charges (rated by 8.3% of respondents) and Bank offer (rated by 7.4% of respondents). This information is summarized in Table 4.5 below.

**Table 4. 5: Factors Affecting Customer Loyalty**

<b>Factors</b>	<b>Frequency</b>	<b>Percent</b>
Customer service	25	23.1
Internet and mobile banking service	17	15.8
Bank charges	9	8.3
Account types	20	18.5
Bank offer	8	7.4
Bank location	29	26.9
<b>Total</b>		<b>100</b>

**Source:** Field Data, (2014).

#### **4.2.1.3 Loyalty of Customers with Respect to Events**

This variable was gauged on two aspects as described below, namely; tolerance of customers as a result of minor mistakes at the bank and hearing of negative information, about the Bank. The analysis on the issues is presented hereunder.

##### **a) *Tolerance of Customers***

Customers were asked to indicate if they could tolerate minor mistakes at the bank, and if such situations would not negatively affect their loyalty? It was found out that, 54% of the customers agreed that they can tolerate minor mistakes from Bank and such scenarios do not negatively affect their loyalty. On the other side, 10% of them strongly disagreed while 14% of them just disagreed. Finally, 12% of the respondents neither agreed nor disagreed and the remaining 10% strongly agreed. This information may be further depicted in Table 4.6 below.

**Table 4. 6: Extent of Customers’ Tolerance with Respect to Minor Mistakes at the Bank**

(The statement was, I can tolerate minor mistakes at my Bank and they do not negatively affect my loyalty)

<b>Responses</b>	<b>Frequency</b>	<b>Percent</b>
Strongly Disagreed	10	10
Disagreed	14	14
Neither agreed nor disagreed	12	12
Agreed	54	54
Strongly Agreed	10	10
<b>Total</b>	<b>100</b>	<b>100</b>

**Source:** Field Data, (2014).

***b) Reaction on Negative Information about the Bank***

Customers were also asked to indicate if negative information about the bank does not affect their level of loyalty. Result for this investigation was that, 5% of the respondents strongly agreed while 15% of them disagreed. Moreover, 13% of the customers neither agreed nor disagreed. Furthermore, 53% agreed and 14% strongly agreed. This information has been summarized in Table 4.7 below.

**Table 4. 7: Reaction of Customers on Negative information about the bank**

(The statement was, negative information about the bank does not affect my level of loyalty)

<b>Responses</b>	<b>Frequency</b>	<b>Percent</b>
Strongly Disagreed	5	5
Disagreed	15	15
Neither agreed nor disagreed	13	13
Agreed	53	53
Strongly Agreed	14	14
<b>Total</b>	<b>100</b>	<b>100</b>

**Source:** Field Data, (2014).

### **Discussion of the Findings**

As shown in the foregoing section, the first objective was gauged on three parameters. The parameters were; time duration customers have stayed with the Bank, factors affecting customer loyalty and extent of loyalty of customers with respect to events. For the case of time duration, customers have stayed with the Bank, findings indicated that, majority of the respondents have stayed with the bank for 3 – 4 years, which was 48% of the entire respondents, while, 12% of respondents have stayed with the bank for 5 years and above. This shows that, 60% of the customers have so far stayed with the Bank for at least three years. The results also implicate that, customers have had enough experience, to evaluate the quality of services for the bank and in fact have created some sort of loyalty, to the Bank. This is so because, a customer who is not loyal cannot stay with a firm for more than three years and still continue to use services of that firm.

With regards to the factors which affect customer loyalty to the Bank, the results indicate that, the most responsible factors to that effect are six. The factors according to their order of importance in influencing loyalty are; Bank location, customer services, and types of accounts offered. Other factors were internet and mobile banking service, Bank charges and Bank's offers.

Considering the highly ranked factors by customers, for instance, bank location, as a factor that moulds customer loyalty, Liljander and Strandvik (1995) in their model of relationship quality, contend that, episode value does mould customer's commitment or image of the firm including customer's behavioural intentions (loyalty), as a result of relationship satisfaction and bonds formed by the relationship. According to the authors, bond with service provider includes factors like location of the firm, relationship with the service provider or convenience. Thus, actually, location of the Bank is likely to affect loyalty of customers because it has economic implications on the side of customers.

On the side of customer services, they are also important when providing services. Due to intangibility nature of services, customers did not just look at the end product, like money they received (for the case of bank) or the food they get (for the case of restaurant), etc., but they also look at the way the services are delivered. According to Gronroos (2000), this a very crucial part when delivering services. In fact, there is more evidence from research that indicates that, customers are likely to become dissatisfied with services if customer services were poor (Weber, 1997; Eskildsen and Nussler, 2000).

Finally, the types of accounts offered are also an important factor to impact loyalty. This is true because, offerings of a business entity are important in identifying market segments, to satisfy by giving them what they needed. It is due to offerings where a firm can segment its customers according to different behaviours (Kotler, 2000). Of course, it is the fulfilment of needs that is finally responsible for level of *service quality*, *customer's satisfaction* as well as loyalty.

For the case of extent of loyalty of customers with respect to events, this study has found out that, majority of customers of the bank ( 64% ) of those who participated in this study, have indicated they would always tolerate minor mistakes and such mistakes, would not affect their level of loyalty. This is an indication that, indeed, most of the customers of the Bank are loyal. Nonetheless, this should not give assurance to the Bank management to go and sleep, because there are also those who indicated that, they would not tolerate minor mistakes. Thus, the Bank's management need to ensure that, chances of errors are minimized so that customers can feel safe in making transactions, with the firm. In addition to this level of commitment shown by customers, they had also demonstrated that, most of them would not react negatively to the bank when they received bad information, about the Bank. On this respect, 67% agreed that they would not be affected by the negative information. This is further evidence that, in fact, NMB has good proportion of its customers who are loyal to their bank. One of the respondents who was asked about this level of commitment she has to the Bank had this to comment.

*"Being with this NMB, I believe my assets are safe."*

#### 4.2.2 Relationship between Perceived Quality and the Customer Loyalty

The second objective of this study was to analyze the relationship between perceived quality and the customer loyalty. To meet this objective, a hypothesis was developed and tested. The hypothesis was:

*There is a relationship between perceived quality and customer loyalty.*

The hypothesis was developed because of the literature supporting the relationship between these two variables (example, Gilbert and Veloutsou, 2006; Oliver (1994). It was further considered that, one of the best predictor of loyalty is customer likelihood to recommend as suggested by Kotler and Armstrong (2012) as well as Athanassopoulos, et al., (2001). Thus, the intention to recommend was taken to be a proxy of customer loyalty. In testing this hypothesis, Null and alternative hypotheses were set as:

*Null hypothesis: There is no relationship between perceived quality and the customer's loyalty ( $\beta = 0$ ).*

*Alternative hypothesis: There is relationship between perceived quality and the Customer's loyalty ( $\beta \neq 0$ ).*

In this analysis, independent variable was taken to be perceived quality (AveQuali) and the dependent variable was customer's loyalty (AveLoyal). The names AveQuali and AveLoyal were target variable defined under SPSS during preliminary data analysis, after averaging the ordinal data measured from the Likert scale of five points. This type of analysis is common in analyzing data in studies involving service quality, customer's satisfaction and customer's loyalty (example, Ame, 2005; 2009; Lee et al., 2000; Cronin and Taylor, 1992; 1994; Brady, et al., 2002). Thus, the model fitted was:

$$AveLoyal = \alpha + \beta AveQuali + \varepsilon$$

Where;

AveLoyal was the dependent variable.

AveQuali was the explanatory variable.

$\alpha$  = the intercept on the y-axis.

$\beta$  = the slope of the model.

$\varepsilon$  = error term of the model which cannot be estimated.

Tables 4.8.1, 4.8.2, 4.8.3 and 4.8.4 below present the findings of the study on this analysis.

**Table 4.8. 1: Variables Entered/Removed<sup>b</sup> in the Service Quality and Loyalty Relationship**

Model	Variables Entered	Variables Removed	Method
1	AveQuality <sup>a</sup>		Enter
a. All requested variables entered.			
b. Dependent Variable: AveLoyal			

**Table 4.8. 2: Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.134 <sup>a</sup>	.018	.008	.58828	2.225
a. Predictors: (Constant), AveQuality					
b. Dependent Variable: AveLoyal					

**Table 4.8. 3: ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.617	1	.617	1.783	.185 <sup>a</sup>
	Residual	33.915	98	.346		
	Total	34.532	99			
a. Predictors: (Constant), AveQuality						
b. Dependent Variable: AveLoyal						

**Table 4.8. 4: Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	2.705	.612		4.421	.000			
	AveQuality	.224	.168	.134	1.335	.185	.134	.134	.134
a. Dependent Variable: AveLoyal									

As depicted in Table 4.8.4, there is weak relationship between service quality and customer's loyalty due to Standardized Beta value of 0.134, supported by the level of significance of 18.5%. Due to that, the null hypothesis stated as there is no relationship between perceived quality and the customer loyalty cannot be rejected. With regard to the extent of the relationship, the R value which can better be represented by Adjusted R Square (that takes care of degrees of freedom) in Table 4.8.2, is also very weak supported by 18.5%.

## **Discussion of the Findings**

As presented above, this study has not been able to establish significant relationship between perceived quality and customer loyalty. In fact, the relationship established here is weak as indicated by significant level greater than 5% (18.5%). Thus, the findings are not supported by those documented by other researchers like; Gilbert and Veloutsou, (2006); Oliver, (1994). However, the results are supported by those documented by researchers like; Caruana, (2002); Butcher, (2001); Ehigie, (2006); Lam & Burton, (2006). These authors have found out that, the relationship between service quality and customer loyalty is actually weak. The reason why the findings in this study have interred into the controversy as shown by previous studies, has two explanations. The first one is that of differentiation of contexts or culture and the second is the issue of causal order between service quality, customer satisfaction and customer loyalty (in the form of behavioural intentions).

With respect to differentiation of contexts or culture, available literature supports the fact that, evaluation of service quality, customer satisfaction and customer loyalty differ across contexts and across culture (Donthu and Yoo 1998; Winsted, 1999; Ueltschy and Krampf, 2001; Winsted, 2000). Due to differences in evaluations, there are tendencies to have relationship on these variables becoming strong (Lee et al., 2000; Ame, 2005; 2009), weak (Caruana, 2002; Butcher, 2001; Ehigie, 2006; Lam & Burton, 2006), negative (Chakravarty, 2003) and sometimes, showing differences in their causal order (Cronin and Taylor, 1992; 1994; Bolton and Drew, 1991a,b). This dilemma has been addressed by a number of researchers (for example, Zeithaml, 2000; Cronin and Taylor, 1992). Thus, this scenario is not new as supported by abundant literature.

Finally, as far as the causal order between service quality, customer satisfaction and loyalty is concerned, literature also supports that; the link is as presented below.

*Service quality* → *customer satisfaction* → *Loyalty* (Lee et al., 2000; Ame, 2005; 2009; Cronin and Taylor, 1992; 1994). Given this link, most of the relationship between service quality and loyalty is mediated through customer's satisfaction, which is the variable mediating the link between service quality and customer loyalty. Due to that, it is highly likely to report a situation where service quality and loyalty do not relate or have a weak relationship like what has been reported here.

#### **4.2.3 Relationship between Customer Satisfaction and Customer Loyalty**

The third and last objective of this study was to analyze the relationship between customer satisfaction and customer loyalty. To meet this objective, a hypothesis was also developed and tested. The hypothesis was:

*There is a relationship between customer satisfaction and Customer loyalty.*

The hypothesis was developed because of the findings from past studies, supporting the relationship between these two variables (example, He and Song, 2009; Lee et al., 2000). In addition to that, the level of customer[s satisfaction was assessed.

With respect to relationship between customer satisfaction and customer loyalty, the null and alternative hypotheses were set as follows:

*Null hypothesis: There is no relationship between customer satisfaction and customer loyalty ( $\beta = 0$ ).*

*Alternative hypothesis: There is relationship between customer satisfaction and customer loyalty ( $\beta \neq 0$ ).*

In this analysis, independent variable was taken to be customer satisfaction (AveSatis) and the dependent variable was Customer's loyalty (AveLoyal). The names AveSatis and AveLoyal were target variable defined, under SPSS during preliminary data analysis after averaging the ordinal data, measured from the Likert scale of five points.

Thus, the model fitted was:

$$AveLoyal = \alpha + \beta AveSatis + \varepsilon$$

Where;

*AveLoyal* was the dependent variable.

*AveSatis* was the explanatory variable.

$\alpha$  = the intercept on the y-axis.

$\beta$  = the slope of the model.

$\varepsilon$  = error term of the model which cannot be estimated.

Tables 4.9.1, 4.9.2, 4.9.3 and 4.9.4 below present the findings of the study on this analysis.

**Table 4.9. 1: Variables Entered/Removedb in the customer satisfaction and Customer Loyalty**

Model	Variables Entered	Variables Removed	Method
1	AveSatis <sup>a</sup>		. Enter
a. All requested variables entered.			
b. Dependent Variable: AveLoyal			

**Table 4.9. 2: Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.191 <sup>a</sup>	.037	.027	.58263	2.221
a. Predictors: (Constant), AveSatis					
b. Dependent Variable: AveLoyal					

**Table 4.9. 3: ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.266	1	1.266	3.728	.050 <sup>a</sup>
	Residual	33.266	98	.339		
	Total	34.532	99			
a. Predictors: (Constant), AveSatis						
b. Dependent Variable: AveLoyal						

**Table 4.9. 4: Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	2.663	.446		5.969	.000			
	AveSatis	.237	.123	.191	1.931	.050	.191	.191	.191
a. Dependent Variable: AveLoyal									

As depicted in Table 4.9.4, both the constant term and the Standardized Beta values, are significant at 0.000 and 0.05 levels of significance respectively. This implies that, a relationship existed between customer satisfaction and customer loyalty as supported

by this analysis. With regards to nature and extent of the relationship between the two variables, Table 4.9.2 indicates that, the relationship is positive and is gauged by the level of Adjusted R Square of 0.027 which is significant as it is standardized.

**Level of Customer Satisfaction**

Regarding the assessment of the level of customer satisfaction, customers were then asked about their level of satisfaction, regarding the services offered by the Bank. Table 4.10 below shows proportions of the customers with their level of satisfaction.

**Table 4.10. 1: Level of Customer Satisfaction**

(The statement was my level of satisfaction with regard to the services offered by this bank to me can be ranked as)

<b>Responses</b>	<b>Frequency</b>	<b>Percent</b>
Very Dissatisfied	5	5
Dissatisfied	7	7
Neither Satisfied nor dissatisfied	12	12
Satisfied	56	56
Very Satisfied	20	20
<b>Total</b>	<b>100</b>	<b>100</b>

**Source:** Field Data, (2014).

As presented in Table 4.10 above, statistics show that, only 5% of the customers were very dissatisfied while 7% of them were simply dissatisfied with the services offered by the bank. The above table also, indicates that 12% of the customers were neither satisfied nor dissatisfied. Moreover, 56% of the customers were satisfied with the services offered by the bank. Finally, 20% of the customers were in fact very satisfied with the services. So, if very satisfied and satisfied were mixed and just defined as

satisfied, we could conclude that 76% of customers involved in this study, were satisfied with the services offered by the bank.

### **Discussion of the Findings**

From the above analysis, it can be seen that, the results obtained by analyzing the relationship between customer satisfaction and customer loyalty show a positive relationship between these two variables. The test results indicate that there is enough empirical evidence to accept the null hypothesis, that customer satisfaction has relationship with customer loyalty. Further, the significant positive R value indicates that this relationship is positive and significant. Thus, satisfying customers in the banking sector is a surrogate for creating loyalty. That is, the results of this research have uncovered that, better customer satisfaction would increase customer loyalty of bank customer.

Results on this study are well supported by those findings documented by various scholars (example, Ladebo, 2006; Hang, 2008; Lurn, 2003; Caruana *et al.*, 2000; Luarn and Lin, 2003; Ribbink *et al.*, 2004; Akbar and Noorjahan, 2009; Afsar *et al.*, 2010; Chen *et al.* (2010), Kassim & Nor Asiah, 2010; Akbar & Som, 2011). These researchers have shown that, there is a positive relationship between customer satisfaction and customer loyalty. Hence, loyalty occurs as a result of the customer's feeling satisfied with the service performance. Therefore, it can be concluded that there was a positive relationship between customer satisfaction and customer loyalty.

Further, these findings are very consistent with the evaluation of customers themselves, regarding their level of satisfaction as reported above. On this regard, it has been reported that, 76% of the customers of this Bank who were involved in this

study, were actually satisfied with the services offered by the Bank. Another interesting issue is that, the level of the proportion of customers (67%) who indicated that they were loyal with the Bank and that they would not be affected by the negative information about the bank or they would not change their minds, with minor mistakes committed by the Bank. Given the level of satisfaction as reported by customers themselves and the fact that, they have confirmed to be loyal to the Bank is evidence that, indeed, there was strong relationship between customer satisfaction and customer loyalty. The strong relationship, conversely, between customer satisfaction and customer loyalty documented here is another justification why this study has not been able to report a relationship between service quality and customer loyalty. This is so ostensibly because, most of the relationship between service quality and customer loyalty was mediated through customer satisfaction.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

This study was implemented to fulfil three objectives, which were; to identify factors affecting customer loyalty in the banking industry, to analyse the relationship between perceived quality and the customer loyalty and to analyse the relationship between customer satisfaction and the customer loyalty. The previous chapter presented main findings of the study as guided by the research objectives. This chapter provides summary of findings, conclusion and recommendations, based on the same findings. Finally, the chapter ends by showing the limitation of the study and suggestions for further research.

#### **5.1 Summary of the findings**

This section summarizes findings of the study presented in the previous chapter. In so doing, the same chronology of the research objectives was followed.

##### **5.1.1 Factors Affecting Customer Loyalty in the Banking Industry**

The factors affecting customer loyalty in this study were found to be three. First, the question of how long a customer has been using this bank. It has been observed that, the longer the time customer uses the bank, the more s/he creates and become loyal. Due to that, it is imperative for the bank managers to ensure that, they maintain a long term relationship with customers so as to increase possibility of creating many customers, who are loyal to the Bank. Secondly, is the issue of bank related factors, in which six factors have been reported to affect customer loyalty. These are; Bank's location, customer services and types of accounts offered. Others are internet and

mobile banking service, Bank's charges and Bank's offers. Due to this, it was important for Bank management to put these issues into consideration, if they needed to enhance loyalty to their customers. Finally, this study has found out that, majority of their customers were loyal and would not be affected by minor mistakes at the bank and that negative information, would not affect their level of loyalty.

### **5.1.2 Relationship between Perceived Quality and the Customer Loyalty**

This study has documented a weak relationship between service quality and customer loyalty in the banking industry. Nonetheless, these findings are not new because they are well supported by the existing literature. Further, this finding is explained by the fact that, results on these variables are often moderated by contexts as well as cultures. Furthermore, the causal order of service quality, customer satisfaction and loyalty is another reason why relationship between service quality and customer loyalty is weak. That is, customer satisfaction is a mediating variable between service quality and customer loyalty link, thus, it contravenes the extent of the relationship between service quality and customer loyalty. Again, this argument is well supported by the existing literature.

### **5.1.3 Relationship between Customer Satisfaction and Customer Loyalty**

It has been evidenced that, there is positive relationship between customer satisfaction and customer loyalty. This means that, when customers are satisfied, they are highly likely to become loyal. For this Bank, specifically, customers felt safe with their assets because of the way they are serviced by the bank. In addition to that, customers have indicated that, they were satisfied with the Bank's services and indeed, they were loyal to the Bank.

## **5.2 Conclusion**

Based on the findings as presented above, there are two areas where the study makes contribution. These are contribution to knowledge, and management practices as presented below.

### **5.2.1 Contribution to Knowledge**

The findings of this study have a potential in improving the customer loyalty in the banking industry in Tanzania, and developing countries' contexts. In fact, findings of the study have fallen into that group of researchers who documented a weak or no relationship between service quality and customer loyalty. With that, the findings might have been contravened by cultures of the respondents who took part in the study, or by the causal order that exist between service quality, customer satisfaction and customer loyalty. Thus, researchers should understand that, link between these variables are moderated by several environmental factors to include but not limited to culture of respondents, contexts and causal order that exists between service quality, customer satisfaction and customer loyalty. Further, the positive relationship between customer satisfaction and customer loyalty documented here is evidence that, these constructs are close to each other and therefore, their closeness hinder relationship between service quality and customer loyalty to be shown.

### **5.2.2 Contribution to Management Practices**

Based on findings of this study, the management of the Bank and other banks should not think that, there are no relationship between quality of services and customer's loyalty. In fact, this relationship is mediated through customer's satisfaction. What they should do is to put more emphasis on improving the quality of services, to make their customers becoming satisfied after which they will become loyal to their firm.

Further, the management of the Bank needs to come up with strategies that will capitalize on other factors, which have been indicated to influence customer loyalty.

### **5.3 Recommendations**

Based on the findings documented, this study is making recommendations to two main stakeholders, namely; management of the Bank and Employees.

#### **5.3.1 Recommendations to Bank Management**

This section is devoted for recommendations made to the management of the Bank. It is believed that, if the recommendations were implemented customer loyalty would be enhanced at the Bank.

- 1) It has been observed that, the longer the time customers stay with the bank, the more loyal they become. Thus, managers are advised to maintain the long term relationship with their customers. Customers must believe firmly that their Bank delivers what it promises to them. To maintain this, managers should regularly take the feedback from customers and should incorporate changes desired by the customers.
- 2) Bank's management should ensure that, it takes its services close to its customers in order to make them loyal, because loyal customers would not change their minds because of minor mistakes that the Bank might commit, in the cause of rendering services.
- 3) It is very important for the Bank to improve customer care and services. The Bank should also conduct periodic customer satisfaction survey, to understand the types of accounts (products) required by customers to be offered. This has been found out to highly impact customer loyalty.

- 4) The bank should emphasize on improving the quality of its services in order to make customers satisfied. This will in turn have impact of loyalty of their customers.
- 5) The bank should also look for other avenues in its operations, apart from improving quality, which will make customers satisfied. It is this satisfaction which will eventually make customers becoming loyal to the Bank.

### **5.3.2 Recommendations to Bank Employees**

- 1) Bank employees should be willing to help customers when they needed services. They should always work towards improving customer care in order to create a loyal to customers.
- 2) Bank employees should ensure that they provided services of high a quality, to the extent of making customers highly satisfied. This is so because satisfied customers are the ones who become loyal to the firm that rendered services.
- 3) Bank employees should help managers in implementing various strategies, intended to create a customer's satisfaction. In so doing, they could enhance customer loyalty for the economic benefit of their Bank.

### **5.4 Limitation of the Study**

In spite of the contributions this study has made to the body of knowledge and management practices, the study had some limitations, namely; it employed a case study design. It is acknowledged that, if many cases were considered, findings could have been improved further. In addition, this study was actualized in Dodoma region alone and by taking customers of only one branch. This was done based on convenience and possibility to access data and information. It is again acknowledged

that, if customers of other towns and several banks were considered, more issues could have been uncovered.

### **5.5 Area for Further Study**

The following areas are recommended for future research.

- 1) Conducting research on other factors which have just been explored in this study to observe empirically, how the extent and the way they influenced customer loyalty. The factors are; Bank's location, customer services and types of accounts offered, internet and mobile banking service, Bank's charges and Bank's offers.
- 2) Conducting a research in this area by considering survey methodology and by considering many banks or other service based organizations.
- 3) Conducting research to establish a causal order between service quality, customer satisfaction and customer loyalty to ascertain the extent of power between service quality and loyalty that is mediated through customer satisfaction.

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**Appendix 1: Questionnaire for Customers of the Bank**

This study is based at the University of Dodoma. Its major objective is to investigate on the factors influencing Customer loyalty in the banking industry, by taking the case of NMB. Therefore, you are kindly requested to participate in this study by filling in this short questionnaire. In case the final account of this work may contain confidential information and its report could be harmful to organization or individual, confidentiality is assured by the University. Such report will be seen only by the Supervisor and Examiner for examination purposes.

**SECTION A: DEMOGRAPHIC CHARACTERISTICS OF CUSTOMERS**

1) Sex: Male. Please tick (√) appropriately.

<b>Response</b>	<b>Tick (√)</b>
Male	<input type="checkbox"/>
Female	<input type="checkbox"/>

2) Age of the customer. Please tick (√) appropriately.

Below 20 years	<input type="checkbox"/>
21 – 30 years	<input type="checkbox"/>
31 – 40 years	<input type="checkbox"/>
41 – 50 years	<input type="checkbox"/>
Above 50 years	<input type="checkbox"/>

3) Level of education attained. Please tick (√) appropriately

Primary Education	<input type="checkbox"/>
Secondary Education	<input type="checkbox"/>
Degree Holder	<input type="checkbox"/>
Other (Please specify.....)	

4. Occupation of the customer. Please tick (√) appropriately.

<b>Response</b>	<b>Tick (√)</b>
Student	<input type="checkbox"/>
Farmer	<input type="checkbox"/>

Business person	
Public servant	
<b>Private sector employee</b>	
<b>Other. Please specify.....</b>	

**SECTION B: CUSTOMER LOYALTY**

5) For how long have you been the customer of this bank? Please tick (✓) appropriately.

<b>Response</b>	<b>Tick (✓)</b>
Less than a year	
1 – 2 years	
3 – 4 years	
5 years and Above	

6) What factors affect your loyalty to a bank? Please tick (✓) appropriately.

<b>Response</b>	<b>Tick (✓)</b>
customer service	
internet and mobile banking service	
Bank’s charges	
Account types	
Bank’s offers	
Bank’s location	
Others (Please specify.....)	

6) Please rank the following on a scale 1-5, to reflect your feelings and the extent to which you agree with the statements regarding to your loyalty. The minimum you may rank is 1 and the maximum is 5. You may rank 1, 2, 3, 4 or 5. (Scale: 1=Strongly Disagree, 2= Disagree, 3=Disagree Neither agree nor disagree, 4=Agree 5=Agree Strongly). Please circle the numbers you select.

<b>Response</b>	<b>Strongly Disagree</b>					<b>Strongly Agree</b>
a) I can tolerate minor mistakes at this bank and they do not negatively affect my loyalty	1	2	3	4	5	
b) Negative information about the bank does not affect my level of loyalty	1	2	3	4	5	

**SECTION C: PERCEIVED SERVICE QUALITY**

8) Please rank the following on a scale 1-5, to reflect your feelings and the extent to which you agree with the statements, on the level of service quality about the Bank. The minimum you may rank is 1 and the maximum 5. You may rank 1, 2, 3, 4 or 5. (Scale: 1=Strongly Disagree, 2= Disagree, 3=Disagree Neither agree nor disagree, 4=Agree 5=Agree Strongly. Please circle the numbers you select.

<b>Tangible</b>	<b>Strongly Disagree</b>					<b>Strongly Agree</b>
a) My bank’s physical facilities are visually appealing	1	2	3	4	5	
b) My bank uses state of the art technology and equipments in their service delivery	1	2	3	4	5	
c) The employees are well dressed and neat in appearance	1	2	3	4	5	
<b>Reliability</b>	1	2	3	4	5	
d) When the bank promises a certain service by a certain time, it does so	1	2	3	4	5	
e) When customers have a problem, the bank shows sincere interest in solving it	1	2	3	4	5	
f) This bank delivers its services promptly at the time it promises to do so	1	2	3	4	5	
g) This bank always performs the service	1	2	3	4	5	

right the first time

**Responsiveness**

- h) The bank employees tell me exactly when services will be performed 1 2 3 4 5
- i) The bank employees give me a prompt service 1 2 3 4 5
- j) The bank employees are always willing to help me 1 2 3 4 5
- k) The bank employees are never too busy to respond to my requests 1 2 3 4 5

**Assurance**

- l) The employees instil confidence in customers 1 2 3 4 5
- m) Customers feel safe in transactions with the bank 1 2 3 4 5
- n) The employees are consistently courteous with customers 1 2 3 4 5
- o) The employees have knowledge to answer customers' questions 1 2 3 4 5

**Empathy**

- p) The bank employees give customers individual attention 1 2 3 4 5
- q) The employees understand customers specific needs 1 2 3 4 5
- r) My bank provider has operating hours and location convenient to all its customers 1 2 3 4 5
- s) The employees give off their personal attention 1 2 3 4 5

**SECTION D: CUSTOMER SATISFACTION AND BEHAVIOURAL INTENTION**

9) Please rank the following on a scale 1-5, to reflect your feelings and the extent to which you agree with the statements, regarding your level of satisfaction and behavioural intention about the Bank. The minimum you may rank is 1 and the maximum 5. You may rank 1, 2, 3, 4 or 5. (Scale: 1=Strongly Disagree, 2=Disagree, 3=Disagree Neither agree nor disagree, 4=Agree 5=Agree Strongly. Please circle the numbers you select.

<b>Satisfaction</b>	<b>Strongly Disagree</b>					<b>Strongly Agree</b>
	1	2	3	4	5	
a) I am completely satisfied with the services delivered by my bank	1	2	3	4	5	
b) I feel very pleased with services offered by this bank	1	2	3	4	5	
c) Prices are lower enough to satisfy you	1	2	3	4	5	
d) Staff can provide service to customers quickly	1	2	3	4	5	
e) Staffs are polite to membership customers	1	2	3	4	5	
f) My experience in the bank is happy	1	2	3	4	5	
g) Services provided by the bank is better than my expectations	1	2	3	4	5	
h) When conflicts happen, staff can deal with them to satisfy membership customers	1	2	3	4	5	

**Behavioural intentions of customer**

i) I recommend my family, friends and relatives to do business with this bank.	1	2	3	4	5
j) I will say positive things about this bank to other people	1	2	3	4	5
k) I recommend this bank to someone who seeks financial advice	1	2	3	4	5
l) I consider myself to be loyal to this bank	1	2	3	4	5

10. Please rank your level of satisfaction by ranking on a scale 1-5, to reflect your feelings and the extent to which you agree, with the statement regarding your level of satisfaction. The minimum you may rank is 1 and the maximum 5. You may rank 1, 2, 3, 4 or 5. (Scale: 1=Strongly Disagree, 2= Disagree, 3=Disagree Neither agree nor disagree, 4=Agree 5=Agree Strongly. Please circle the numbers you select.

<b>Level of Satisfaction</b>	<b>Very Dissatisfied</b>				<b>Very Satisfied</b>
My level of satisfaction with regard to the services offered by this bank to me can be ranked as	1	2	3	4	5

*Thank you very much for your participation*

## **Appendix 2: Interview Guide for Managers**

This study is based at the University of Dodoma. Its major objective is to investigate on the factors influencing Customer loyalty in the banking industry, by taking the case of NMB. Therefore, you are kindly requested to participate in this study by filling in this short questionnaire. In case the final account of this work may contain confidential information and its report could be harmful to organization or individual, confidentiality is assured by the University. Such report will be seen only by the Supervisor and Examiner for examination purposes.

- 1) How does your bank create Customer's loyalty?
- 2) How does the bank create satisfaction among existing customers?
- 3) In your experience, what factors make customers loyal with your bank?
- 4) In your opinion, what are the benefits of keeping customer loyal?

***Thank you very much for your participation***