

**UGANDA MARTYRS UNIVERSITY**

**FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT**

**SERVICE QUALITY AND CUSTOMER RETENTION**

**A CASE STUDY**

**DFCU BANK FREEDOM CITY BRANCH**

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## **DEDICATION**

I dedicate this research work to my loving parents Mr. and Mrs. NSUBUGA DAVID for their wavering support in educating me since my first level, its trough their education investment in my education that I have reached this far.

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## ABSTRACT

The purpose of the study was to assess Service quality and Customer Retention Uganda, using DFCU Bank as a case study. The objectives of the study were to examine how reliability affects customer retention in DFCU Bank .To investigate the effect empathy has on customer retention and to assess how assurance of services in DFCU Bank influences customer retention.

The study was a cross sectional survey where both qualitative and quantitative data were gathered in order to establish the relationship between the variables under study. Data was collected from Customers of DFCU Bank, their sample size comprised 55 respondents who were purposively selected and simple random sampling was jointly used to minimize biased results. Self-administered questionnaires were the main instrument of the study and data was analyzed using frequencies, percentages, mean, standard deviation and SPSS was used to establish findings about Service Quality and Customer Retention. The results of this study indicated that DFCU Bank provides quality services which express empathy to customers through customer care and give assurance services to its customers.

The study revealed services are perceived to be of quality by majority of the customers of DFCU Bank although a few disagree claiming to have challenges with the Services offered, where the customer deflection rate was steadily increasing. It is therefore this steady rise that necessitates the investigation of its problem cause.

Despite of this, there exists a strong positive relationship and bond between Service quality and Customer Retention that's to say a correlation of 0.028 between Reliability and Customer Retention , correlation of 0.199 between Empathy and Customer retention and a correlation of 0.105 between collection Assurance and Customer Retention (using correlation

SPSS).This implies that the effectiveness of Service quality leads to higher Retention levels of the bank's customers.

The researcher recommends that DFCU Bank educates its Customers on how to use its Services for more flexible banking services for those experiencing difficulty, Make an effort to receive feedback from customers about their service experiences in DFCU Bank and lastly build more loyalty programs in order to build stronger relationships with its Customers.

## DEFINATION OF TERMS AND CONCEPTS

**Service Quality** is the overall judgment similar to attitude towards the service provided.

**Reliability** is the ability to be efficient , dependable and efficient either as an individual or business

**Empathy** is the ability to render individual attention, treating others with care, concern and identifying with their need.

**Assurance** is the ability of an employee instilling confidence in customers, making them feel safe with their transactions as a customer.

**Customer retention** is the firm's ability to attract and keep its customers

**Customer Loyalty** is the personal commitment of customers to a specific business or brand name.

**Customer Satisfaction** is the ability to meet or exceed a customer's expectation.

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## **CHAPTER ONE**

### **1.0 Introduction**

The Focus on Service Quality is the secret behind an Organization's Brand Image, For Service delivery is a core element especially due to the high competition in the Banking sector, this becomes the most powerful tool of retaining customers.

The context of this research addresses the issues of service Quality and customer retention .It discusses the relationship between Service Quality as the independent variable and customer retention as the dependant variable through their various dimensions hence giving insight of the research study .we echo concerns of customers who have high expectations of banks and set a high level of service quality delivery.

The chapter covers the background of the study, the problem raised, how customer retention is affected by the Service quality, the research objectives and research questions to be used, the scope/area and the significance of this Study

### **1.1 Background of the Study**

" A customer is the most important visitor on our premises. He is not depending on us. We are depending on him. He is not an interruption on our work. He is not an interruption on our work. He is the purpose of it .He is not an outsider on our business. He of is part it. He is doing us a favor by giving us an opportunity to do so."-Mahatma Gandhi-

In any business, customers are the most important aspect of a successful company and the customers must be looked after and managed properly to ensure their stay. In addition reducing customer defection is highly desirable.

."Customer retention programs can be a powerful tool in the arsenal of CRM. Customer retention is important to most companies because the cost of acquiring a new customer is far greater than the cost of maintaining a relationship with a current customer."(Roking-2005)

According to Ibid (2006), he explains that for many firms, customer profitability is skewed in such a way that losing the most profitable customers has a very serious effect. In many banks, for example, the top 30 percent of customers (when ranked by profitability) make up 100-150 percent of total customer profitability. That's right the bottom eighty percent of customers may provide no prosperity or, worse yet, destroy 50 percent of profitability.

Ibid further suggests that retention programs allow companies to collect data about their customers. This data can be used to better understand, target, market to, and communicate customers or to customers or to customize future interactions with customers. Retention programs can be a relatively in expensive means of making customers feel special, increase their purchases and recommend prospects.

"In terms of customer retention, Ibid (2006) emphasizes that the appropriate data capture, access and analysis system enables a firm to determine which customers to remain with the firm. 'A willingness from both the company and the customer to stay committed to the relationship, it has to be one which is based on mutual benefits.'"A sales force or customer service system can identify high value customers to sales and service forces so these customers will benefit from individualized retention activities".

The present problems showing failure to retain customers include,

Unfavorable pricing, if the prices are perceived to be too high, some or all customers will be driven away. But some business owners do not realize that even setting very low prices could create an impression of low quality products or services which equally can be off putting. for



example, in downtown Kampala has many stores selling second hand clothes, these are priced cheaper than clothes in uptown hence making most quality sensitive customers never return to buy the cheap ones. on the other hand shops over pricing clothes lose customers to those selling at a cheaper price.

Poor customer service and customer relationship management ,in some banks like centenary the queues are just too long which leads to tiredness of customers in the lines and causing them to opt for other banks such as DFCU Bank, standard chartered with more efficient tellers and less crowded queue. This issue is a burden to the customer service sector which is expected to find an immediate solution otherwise causes failure to retain customers.

Operating from a hard to reach or find location can be another reason for not retaining customers, despite how good the marketing skills of the organization, if located poorly, there will always be a high customer defection rate due to difficulty in accessibility. for example banks far off the city centre ,schools in swampy areas and many others

The products or services provided most times are not as attractive as they once were, Evolution of products and technology is likely to make some products out dated such as phones, radios, laptops yet many customers will always prefer buying the updated versions hence raising demand of upgrading the products or services or better yet restock will new products and get rid of the old ones with high discounts or free give away.

In addition, many Ugandan business owners have a tendency of duplicating products in order to make more sales which drives away the customers to more quality offers as a result of bias over the duplication.

Raise of competitors with competitive advantage over the present business causes failure to retain customers. Recently centenary bank changed from a micro finance to a commercial

bank and seems to be capturing the low income earners' attention hence attracting most small business owners by offering small loans as a competitive advantage over most banks with DFCU inclusive which focus mainly on the cooperate sector. All these issues above can however be curbed by developing company strategies such as improving service quality to control defection of customers and retain more customers.

Harvey (2010) articulates that Service quality is an assessment of how well as service delivered conforms to the client's expectation."The rapid technology advancement, expansion and improved communication systems, have contributed to the increasing of the integration and resemblance amongst banks in the financial sector. As a result, banks are now faced with high and intense competition.

He further explains that currently, Service quality has received much attention because of its obvious relationship with costs, financial performance, customer satisfaction and customer retention. are consequently put under lot of pressure due to the increase in competition. Various strategies are formulated to retain the customer and the key of this is to increase service quality level which particularly is essential in the banking service context because it provides a high level of customer satisfaction and hence becomes a key strategy for competitive advantage and customer retention.

Majority of the banks currently have developed a system of using mobile money, pay way services, Airtel money, as means of payment of bills, withdrawing and depositing of money on customers bank account which has increased service quality through efficiency and easy accessibility hence leading customer retention , satisfaction, loyalty , competitive advantage and reduces defection.

A brief background on the case study, DFCU Bank was established in 1964 as the Development Finance Company of Uganda, in 2000, DFCU Bank acquired Global Trust

Bank (GTB), transforming it into a commercial bank. Its' headquarters are located in Nakasero, Kampala, Uganda; 26 Kyanddondo road with branches in the central, eastern, northern and western Uganda. As of November 2014, the bank maintained 43 branches in Uganda and also announced plans to expand into Kenya, Tanzania, Rwanda, Burundi, and South Sudan.

## **1.2 Problem Statement**

Some companies in today's competitive world pay little attention to customer retention however, make a good number of sales throughout the year but never analyze whether their customers have been the same people or different ones hence leaving a gap of customer retention hence experiencing customer defection.

"In the past, many companies took their customers for granted. Customers often did not have any alternative suppliers. Or the other suppliers were just as poor in a quality and services, or the market was growing so fast that the company did not worry about fully satisfying its customers. A company could lose 100 customers per week, but gain another 1000 customers and consider its sales to be satisfactory. Such a company, operating on 'leaky bucket' theory of business believes that there will always be enough customers to replace the defecting ones"(kotler-pg 405).

"Customer retention in the Banking sector has received utmost acknowledgement."Some customers stopped patronizing the services of banks due to the fact that they spend more hours in queues, their complaints are not handled with urgency, and they are not given prior notice to provide their identification cards when going for their deliverables ( Cheque books, withdraw forms, pay in books, regular sms alert),and they are not informed of any increase in service charges and rates which caused customers a lot of displeasure".(kish,2000).

### **1.3 Purpose or the Study**

From the problem discussion above, the purpose of this research is to explore and investigate the relationship between service quality and customer retention. The role of service quality plays in customer retention focusing on the service sector using DFCU Bank as a case Study.

#### **1.4.0 Research Objectives**

The general objective is to examine relationship between service quality and customer retention.

#### **1.4.1 Other Objectives**

1. To examine how reliability affects customer retention.
2. To investigate the effect empathy has on customer retention.
3. To assess how assurance influences customer retention.

### **1.5 Research Questions**

In order to reach the purpose of this thesis, the following research questions.

1. How does reliability of bank services affect customer retention?
2. What effect does empathy have on customer retention?
3. How does assurance influence customer retention?

## **1.6 Scope of Study**

### **1.6.1 Content Scope**

This research examines and investigates Service quality and Customer retention. The specific objectives include; To examine how reliability in banks affects customer retention, To investigate the effect empathy has on customer retention and To evaluate how assurance influences customer retention.

### **1.6.2 Geographical Scope**

The study was conducted at DFCU bank as the case study using the head office branch in Nakasero, Kampala, Uganda, 26 kyaddondo road. DFCU Bank is registered as the Development Finance Company of Uganda Bank Limited and commonly known as DFCU. It is a commercial bank in Uganda, a regulated finance institution and listened by Bank of Uganda, the central bank and national banking regulator. It provides banking services with products such as Loans, checking, savings, investments, debit cards, credit cards and mortgages. DFCU Bank has many branches all over the country but our study will focus on the main branch.

### **1.6.3 Time Scope**

The study was being limited to period between January 2015 - April 2016. This is so because it gave enough time for the researcher to collect all the necessary information needed during the study.

### **1.7 Justification of the Study**

The output and data that can be drawn from this research was of great contribution to the field activities in the academics and for the practitioners. This study was to examine and investigate the Service quality and customer retention in the banking business. The study focuses on the customer retention in the banking industry. Singh and Sirdeshmukh as cited in Gee et al.,(2008) suggest that customer loyalty is rapidly becoming "the market place currency of the twenty first century." hence will provide insight into the nature of quality service and the background effect of satisfaction and loyalty as an measure of creating and supporting organization growth and survival in the banking industry .This was also enable DFCU Bank to identify the needs and expectations of customers through fee back received from some of its customers.

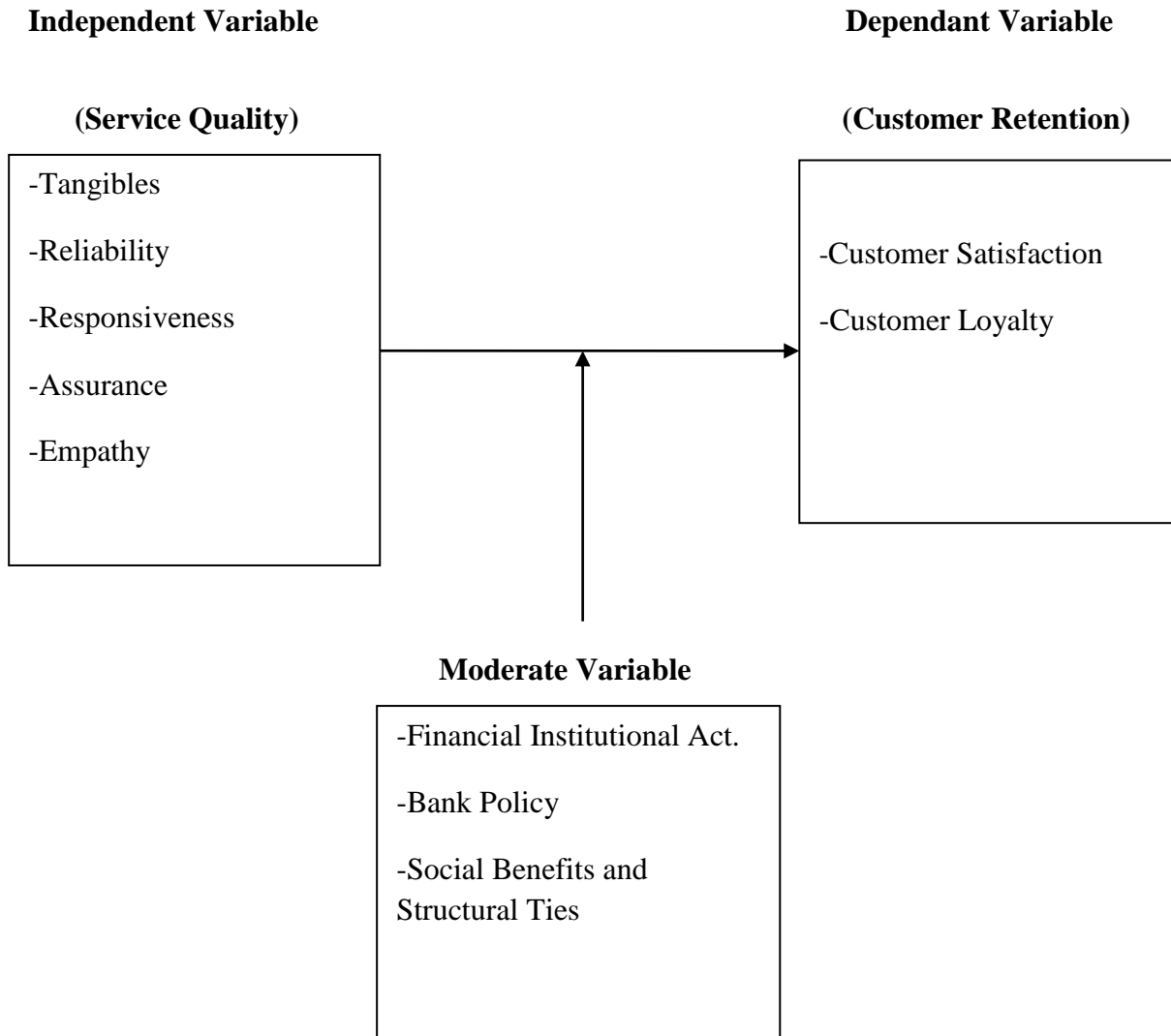
The study revealed areas and factors that need consideration for improvement in order for banks to retain more of their customers. It also links the relationship, if any, of the customer retention levels and success of the firm, in support of the previous literature. The banking industry is highly competitive and this research was be able to discover the techniques DFCU Bank uses to gain competitive advantage over its rivals, curb loop holes if any is discovered.

## **1.8 Significance of the Study**

The findings of the study contribute information to various companies on how to improve on their service quality to increase their customer retention .They also proposes solutions to poor service quality output for all financial institutions. In addition, information collected during this research gave insight of customer expectations in terms of service delivery in service businesses in order to create competitive advantage in order to decrease customer defection levels. The banking industry is highly competitive and this research was able to discover the techniques DFCU Bank uses to gain competitive advantage over its rivals, curb loop holes if any is discovered. Lastly this research further contributes to the available pool of knowledge on service quality and customer retention thereby enriching the subject are and providing a foundation for future research.

## 1.9 Conceptual Frame Work

This is a conceptual frame work linking service quality to customer retention, showing the dimensions of each variable and their moderate variables.



Source; Parasuranman et al.,(1998).



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter reveals the literature on Service Quality and Customer Retention of various authors and researchers in relation to the research problem. It gives insight on what research has been done, and what it says about the research problem at hand through knowledge, conclusions and various opinions of different authors. The review surrounds service quality and customer retention, interrelation between the two variables, the gaps, issues, and contradictions in the existing literature on the research topic which finally links to the research questions.

#### 2.2 Concept of Service Quality

According to Parasuraman et al.(1998), Service quality can be defined as an overall judgment similar to attitude towards the service provided and its generally accepted as an antecedent of the overall customer satisfaction .Zeithaml and Bitner(1998), have defined service quality as the ability of the organization to meet or exceed customer expectations. It is the difference between customer expectations of service and perceived service quality. Perceived service quality results from comparisons by customers of expectations with their perceptions of service delivered by the suppliers. If expectations are greater than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction occurs.

Bowen,(1986) Says that Services unlike tangible products are produced and consumed at the same time in the presence of the customer and the service producer. The presence of the human element during the service delivery process greatly increases the probability of error

on the part of employees and customers. This error is due to intangible behavioral process that cannot be easily monitored and controlled.

However, a substantial amount of service quality research has focused on service customer's perceived service quality. (Parasuraman.,1998, Carman,1990;Babkus and Boller,1992),relatively comment saying that little attention has been paid to exploring factors that impact on service employees' behavior with regard to delivering service quality for customers..

A few decades ago, Surprenant and Solomon (1987) stated that service encounters are human interactions. They suggested that customers and service providers have roles to play during and possibly after service encounters and that these roles are based on "interpersonal interactions" between organizations and customers. Service quality in all are service encounters and its thus intrinsically affected by the perceptions of both the service provider and the service receiver. Similarly, Czepeil(1990) concluded that research on service quality must always include the perspectives of both the provider and the receiver .However, most research on the service quality construct has been redistricted to one perspective: that of the receiver(Parsuraman et al.,1988;Guerrie and Deey,1998). A few have applied dual perspectives and considered interactive features of service quality in Service encounters

Svesson et al (2006) explains that because Service delivery occurs during the interactions between contact employees and customers, attitudes and behaviors of the contact employees can influence customers' perceptions of service quality. Beaston et al.(2008) add that perceived employee satisfaction, perceived employee loyalty, perceived employee commitment had a sizeable impact on perceived product quality and on perceived service quality.

### **2.2.1 The Servqual Model**

The SERVQUAL model proposes that customers evaluate the quality of a service on five distinct dimensions; reliability, responsiveness, assurance, empathy, and tangibles. The SERVQUAL instrument consists of 22 statements for assessing consumer perceptions and expectations regarding the quality of a service. Perceived service quality results from comparisons by consumers of expectations with their perceptions of service delivered by the service providers (Zeithaml et al., 1990). It can be argued that the factor underpinning the delivering of good perceived service quality is actually meeting the expectations of the customers. Thus excellent service quality is exceeding the customers' expectations. Zeithaml and Bitner (2000) suggest that the customer expectations are beliefs about a service that serve as standards against which service performance is judged.

Parasuraman et al. (1988) concludes that customers expectations are what the customers think a service should offer rather than what it might be offering. Zeithaml et al. (1990) further identifies four factors that influence customers' expectations: word-of-mouth communications; personal needs; past experiences; and external communications. A gap is created when the perceptions of the delivered service is not as per the expectations of the customer. This gap is addressed by identifying and implementing strategies that affect perceptions, or expectations, both (Parasuraman et al., 1989 and Zeithaml et al., 1990) state that SERVQUAL had been designed to be "applicable across a broad spectrum of services" and the format could be adapted to fit specific needs, and that it could be most valuable when used to track service quality trends periodically. They proposed that the SERVQUAL model could be extended to measure gaps in quality and could therefore be used as a diagnostic tool to enable management to identify service quality shortfalls. The gap score is calculated by the perception statements being deducted from the expectation statements. If any gap scores turn

out to be positive then this implies that expectations are actually been exceeded. This allows service managers to review whether they need to re-deploy resources to areas of underperformance (Wisniewski, 2001).The SERVQUAL instrument ascertains the level of service quality based on the five key dimensions and also identifies where gaps in service exist and to what extent in Table one2.1 as drawn below.

**Table2. 1: Definition of the SERVQUAL Gaps**

Gap(position gap)	Managers' perception of customers expectations.
Gap 2(specification gap)	Difference between what management believes the customers expect the business to provide.
Gap3(delivery gap)	Difference between the service provided by the business and the specification set by management.
Gap4(communication gap)	Promises communicated by the business to the consumer do not match with those externally provided
Gap5( the perception gap)	Difference between the consumers internal perception and expectation of the services.

Table 2. 1, presents the five SERVQUAL gaps as generally defined by ( Zeithaml et al.,1990)

Gap (position gap) Managers' perception of customer’s expectations. Managers are likely to provide services to customers according to what them as managers perceive of what customers expect. The perception can be positive, negative or miss understood.

Gap 2(specification gap) Difference between what various managers believe the customers expects the business to provide. In case two business men having a partnership business have

different beliefs of what the customers expect the business to provide. This is a gap that cannot easily be filled.

Gap3 (delivery gap) Difference between the service provided by the business and the specification set by management. At times the specification of management puts limit to the business performance.

Gap4 (communication gap) Promises communicated by the business to the consumer do not match with those externally provided. Many firms make false advertising whereby they make false promises of what they offer just to attract market, yet when customers come, they are given a different product or service from what was advertised.

Gap5 (the perception gap) Difference between the consumers internal perception and expectation of the services. It's rare to find that what businesses portray on the outside is the same as the quality of service in the inside.

In summary, Gaps 1 to 4 are within the control of the organization and need to be analyzed to determine the causes and changes to be implemented which can reduce or even eliminate Gap 5, which is the gap reflecting the difference between customers perceptions and expectations of the firm's level of service. Surveying of employees can help to measure the extent of 2 to 4 (Zeithmal et al.,1990). This may reveal a difference in perception as to what creates possible gaps.

### **Criticisms of SERVQUAL**

The SERVQUAL instrument for measuring service quality has been subjected to a number of criticisms. Most research studies do not support the five factor structure of SERVQUAL put forward by Parasuraman et al.(1988), and administering expectation items is also considered unnecessary (Carman,1990;Babakus and Boller,1992).In addition, Cronin and

Taylor(1992)developed their own performance- based measure, the SERVPERF .In fact, the SERVPERF scale is un weighted perceptions components of SERVQUAL, which consists of 22perception items thus excluding and consideration of expectations. In their empirical work in four industries, Cronin and Taylor(1992) found that un weighted SERVPERF measure(performance-only) performs better t any other measure of service quality ,and that it has the ability to provide more accurate service quality score than SERVQUAL .they argue that current performance best reflects a customer's perception of service quality ,and that expectations are not part of this concept. Despite the criticisms, SERVQUAL has been used to measure service quality in a variety of contexts, including hospitals (Bakar et al.,2008), universities(Galloway,1998), police services (Donnelly et al.,2006), banks (Kangis and passa,1997), travel agencies (Luk,1997) and public (Babakus and Boller,1992). The wide array of application of such an as SERVQUAL spells confidence in its utilization as a technique for measuring service quality in various business sectors and service industries.

Although some industries did fail to support its structure, Parasuraman et al.(1993) defended the use of the different dimensions, based on conceptual and practical grounds .Parasuraman et al.(1998) noted that even if it may be necessary to reword or modify some items, yet the SERVQUAL scale is applicable in a wide range of business services. However, Parasuraman et.al (1991) cautions that the addition /deletion of items and /or dimensions may result in the loss of the scale's integrity.

### **2.3 Customer Retention**

Customer retention is increasingly being seen as an important m of managerial issue ,especially in the context of a saturated market or lower growth of the of new customers (Ahmad and Buttle, 2003) and Dawkins and Reicheld (1990) first published the tangible effects of companies' commitment to retaining customers, and claimed that higher retention

rate leads to higher net present value of customers. Theoretical positions relating to customer retention management emerged from these main perspectives:

a) Service marketing; where customer retention is viewed as a way to improve customer service quality

b) Industrial marketing which views customer retention as being done through the forging of multi-level bonds comprising financial, social and structural bonds (Turnbull & Wilson, 1989)

c) General management where Desouza (1992) advocates retention and prevention of customers defection through learning from former customers, analyzing complaints and service data and identifying and raising barriers to customers switching (Roseberg & Czepiel, 1984).

Reichheld (1996) also noted that building and sustaining customer Loyalty leads to retention require the approaches of retaining investors, retaining employees and retaining customers. In addition building approaches through adding financial benefits, social benefits and structural ties (Kotler & Keller, 2006; Wunderman, 2000).

### **2.3.1 Customer Satisfaction and Customer Loyalty**

Before a customer is retained in a particular organization, they have to attain a desired level of satisfaction from the quality of the service provided which leads to commitment to stay as a customer and later builds a sense of loyalty to the organizations' product and service Brand. Many of the Research in customer retention and customer exist investigate the processes separately without linking the processes together (Colgate and Norris, 2001).

Gan et al. (2006) argue that most banks in the financial service sector choose not to engage price but rather make use of service as an effective competitive tool. In this light, Colgate and

Varki (2001) argues that nothing can replace quality service. Quality service as perceived by the customer has an effect on the perceived value of the service rendered (Gan et al.,2006). Once customers are satisfied with the service of a particular organization, the propensity to stay and lure other potential customers is high. Customers normally set objectives in respects to measuring a desired value. The customer value hierarchy suggests that desired value is composed of a preference for specific and measurable dimensions, the attribute performances, and consequences linked to goals for use situations. Desired value, in turn, guides customers when they form perceptions of how well or poorly a product has performed in the use situation (Oyeniya and Abiodun 2008). Chong et al.(1997), found out that both customer satisfaction and customer perception of service quality were important predictors of attitude loyalty, but that satisfaction had the strongest relationship with the loyalty construct. Indeed ,it was found that service organization employees form particularly close relationship with customers because employees and customers often work together in the creation of many services. This is so where services are produced by employees and consumed by customers simultaneously (Lovelock,1980). In addition, because of the intangibility of services, customers often on employees' behaviors in forming opinion about the service offering (Gronroos,1984). As result, employees actually became part of the service in the consumers' eyes.

Similarly, purchase intentions were positively influenced by satisfaction across product categories and that customer were more likely to be retained as satisfied. To achieve customer satisfaction and loyalty, Oliver(1999) maintains that all service encounters offer an opportunity to provide superior service quality and distinguish the firm from its competitors. Changing customer preferences and spending patterns will influence consumer's behavior, for example, it was found that banks customers transferred their account to alternative provider because of lifestyle changes, such marriage or moving house. In contrast, Riggall (1980)



confirmed that the convenience factor is the most important for bank customers, followed by friend's suggestions and low service charges. Lewis (1991) indicated that convenience and recommendation by friends and family were the most decisive bank selection criteria. In the face of high levels competition among the various banks necessitate adoption of different customer service techniques to satisfy and retain the customer (Oyeniya and Abiodun2008). Clearly, the effectiveness of the level of customer service will enhance customer retention; reduce switching between and among service providers and serve as the edge over other competitors. In the past customer retention strategy was just one weapon to use against competitors and was downplayed because marketing professionals focused primarily on attracting new customers. However, firms that continue to acquire new customers but are unable to retain them are unlikely to see positive results and customer retention has become essential to survival . Indeed, the relationship between the customers and the banks seems to be built around two different types of factors: social bonds, namely relational components that results in direct relationships, and structural bonds, namely structural components which provide knowledge about the parties involved. According to Patterson and Spreng (1998) the services market is becoming ever more competitive, as price competitions intensifies and the shifting of loyalty becomes an acceptable practice.

Many industries have already experienced a rearrangement of marketing budgets in order to devote more resources to defensive marketing , namely customer retention .Several initiatives have been undertaken to improve retention ,including value chain analysis, customer satisfaction and loyalty programmers (Gummerson1998).The customer satisfaction -retention link has received more attention among marketing and management practitioners and academics. Customer Satisfaction has long been regarded as a "proxy" for firm success it is inextricably linked to customers loyalty and retention. Several authors (Bloemer and Lemmink,1992; Bloemer and Kasper,1995; Sharma and Patterson, 2000) highlighted,

however, that the link between customer satisfaction and customer retention is reliant, to some extent, upon factors such as the level of competition, switching barriers, proprietary technology and the features of individual customers. The relationship between the two key constructs is considered to be far more complex than it might seem (Fournier and Mick, 1999). Satisfaction has a significant impact on customer loyalty (Sharma and Patterson, 2000) and, as a direct antecedent, leads to commitment in business relationships (Burnham et al., 2003), thus greatly influencing customer repurchase intention (Morgan and Hunt, 1994). Indeed, the impact of satisfaction on commitment and retention varies in relation to industry, the industry, product or service, environment, etc. However, customer commitment cannot be dependent only on satisfaction (Burnham et al., 2003).

Relational switching costs, which consist in personal relationship loss and Brand relationship costs and involve psychological or emotional discomfort due to loss of identity and breaking of bonds (Burnham et al., 2003), have a moderating effect on the satisfaction commitment link. Since relational switching costs represent a barrier to exit from the relationship, they can be expected to increase the relationship commitment. High switching barriers may mean that customers have to stay (or perceive that they have to) with suppliers who do not care for the satisfaction created in the relationship. On the other hand, Customer satisfaction is usually the key element in securing patronage; this outcome may be dependent on switching barriers in the context of service provision (Jones et al., 2000). In fact, in certain conditions, a customer might be less than satisfied with a service supplier, but still continue to deal with it because the costs of leaving are perceived as high. Thus the so called loyalty programmers' clearly are an example of programs designed to weaken switching barriers. Indeed, if the firm is able to manage the customer switching costs, it can still retain the customer even though the satisfaction may be lower. The longer the relationship, the more the two parties gain experience and learn to trust each other (Dwyer et al., 1987). Consequently, they may

gradually increase their commitment through investments in products , processes, or people dedicated to that particular relationship. Moreover, a switch in suppliers involves set-up costs and termination costs; the former include the cost of finding another supplier who can provide the same or better performance than the current supplier or the opportunity cost of the fore going exchange with the incumbent, while the latter include the relationship specific idiosyncratic investments made by the customer that have no value outside the relationship (Dwyer et al.,1987). Since a degree of social interaction between the provider and the customer is often required for the service to be "manufactured", the theoretical foundations of the study of switching costs in a service context can be found in social exchange theory (Emerson,1976). In fact, service encounters can be viewed as social exchange with the interaction between the service provider and customer being a crucial component of satisfaction and providing a strong reason for continuing a relationship (Barnes ,2002). Social exchange theory attempts to account for the development, growth and even dissolution of social as well as business relationship. In other words, people (or businesses) evaluate their reward (cost) ratio when deciding whether not to maintain a relationship. Rewards and costs have been defined in terms of interpersonal ( liking, familiarity, influence), personal (gratification linked to self esteem, ego, personality) and situation factors(aspects of the psychological environment such as a relationship formed to accomplish some task). In a service context, considering the level of interpersonal contact needed to provide services, there is a range psychological, relational and financial considerations that might at act as a disincentive for a hypothetic change of service providers. Consistently with the switching costs literature, social capital acts both as a barrier that makes it more difficult or costly ( psychological, relational, economic) to change service provider ( Patterson, 2004), and as an influence , created by the endogenous and contextual interactions, that is distinct ways that consumers might be influenced by their social environments. Without doubt, social capital

has been conceptualized in many different ways(for example, Coleman 1994; Serageldin, 1999). Putman (2000) defines it as a representation of the norms of reciprocity and trust worthiness that arise from social relations, while the organization for Economic Cooperation and Development {OECD}(2001,pg23) perceives social capital as "the resources gained through social ties, membership of the networks and sharing of norms." Therefore, informal networks of social support, including relatives, friends and other extra household connections such as a supportive community, have value. These networks constitutes a locus of access to resources; which in turn determine socio- economic outcomes (Collier,1998).

Moreover , social capital has also been indicated as the primary factor in the success - high rates of credit repayment- enjoyed by banks and other credit institutions based on the "peer lending model" (Banerjee,1998).Given that most studied using the social capital framed, work are from poor developing countries where the ideal of "community" is prized, it is not clear whether participating in an informal network of social support will have similar effects on performance within the context of an advanced-market economy, especially in those countries like the united States, where individual advancement has a significant value. Moreover, previous research has not revealed whether certain aspects of participating in an informal network of social support are more likely to influence economic performance than others; neither has it revealed the nature of these impacts.

In addition, there are few studies specifically focused on the relationship between informal networks of social support and saving outcomes of low-income individual and households. Tithe satisfaction is yet another important trait which must be taken into account when shaping the overall loyalty of the consumers towards their service providers. In banks, the customers ask themselves about the level of services and decide about the level of services and decide about the lack of importance given to them and decide about the repurchase behavior after using the services.

The level of satisfaction is always high when the customer gives minimum price and gets maximum of usage and profit (Jamal and Kamal, 2004). Dissatisfaction usually occurs when the pricing issues are not suiting the needs of the customers. In banking industry also, the interest rates on loans and charges on the usage of online service and ATM machines processing fee is a major bone of contention between the bank and customers. If the customer thinks that the charges are more than they can afford the customer initially tries to compromise but at ascertain point he decides to defect. Nowadays, it has become too easy to open a bank account in any other bank so the switching cost is also minimal. These all factors help customers to switch from the current bank.

Bowen and Chen(2001) points out that a small increase of customer satisfaction leads customer loyalty dramatically. The current study finds that customer satisfaction has a large positive correlation with customer loyalty in the retail banking sector in Bangladesh. Kandampully and Suhartanto (2000) support this relationship. The strong positive correlation of customer satisfaction and customer loyalty means that the bank customers will recommend the bank to other people. As consequence, the banks can be assured will recommend the bank to others people. As a consequence, the banks can be assured of a loyal and stable customer base, thereby reducing the cost.

## **2.4 Service Quality and Customer Retention**

This relationship is portrays through the effects of service quality on retention here, we look at the research objectives.

### **2.4.1 Reliability and customer retention**

This dimension of service quality according to Parasuraman et al. (1991), is how the service provider able to provide service to a customer as promised, dependable in handling

customers' service problems, performs service right the first time, provide service at promised time and keep customers informed about when services will be performed.

#### **2.4.2 Empathy and customer retention.**

Empathy as a dimension of service quality shows how a firm's ability to render individual attention, deal with customers in a caring fashion, have customers' best interest at heart and understand the needs of their customers. Commenting on this Parasuraman et al(1988),said that customers want to feel understood and important to the service provider's firm.

Customer retention then implies a long term commitment on the part of the customer and the firm to maintain the relationship (Wilson,1995).Thus, improved service quality translates into favorable behavioral intentions, which in turn, leads to customer retention.

"For many firms such as banks, customer profitability is skewed in such a way that losing the most profitable customers has a very serious effect on all customers profitability make up 100-150 percent of total customer profitability.

"In addition to saving profitable customers, retention programs allow companies to collect data about their customers. This data can be used to better understand, target, market to, and communicate customers or to customers or to customize future interactions with customers. Retention programs can be a relatively in expensive means of making customers feel special, increase their purchases and recommend prospects."(Ibid)

#### **2.4.3 Assurance and customer retention.**

Service quality shows how knowledge employees are able to render quality service to customers. It is the ability of employees to instill confidence in customers, making them feel safe with their transactions, consistently courteous towards customers, the ability to answer customer questions appropriately. Fitzersimmons & Fitzersimmons(2008), explains that

customers more than often not look out for assurance from employees and expect that employees will behave confidently and instill confidence in their clients. Quality service as perceived by the customer has an effect on the perceived value of service (Gan et al.,2006). once customers are satisfied with the service of a particular organization, the propensity to stay and lure other potential customers is high.

There are two underlying process that explain the contribution of service quality to profitability: firstly by the fact that it is regarded as one of the few means of service differentiation and competitive advantage which attracts new customers, and contributes to market share; and secondly by the view that it is an important means for customer retention. In the long run, building and maintaining a successful long term customer relationship as well as survival in today's competitive market place demands the delivery of quality service to customers.

In addition, quality of service is considered critical success for contemporary service companies. Service quality's close conceptual, as well as empirical link to customer satisfaction turned it into the core marketing instrument, marketing it the most researched area in service marketing(Fisk, Brown and Bitner,1995; Bolton, Kannan and Bramlet, 2000). In addition the accumulated research has linked service quality positively with profitability (Fornell,1992).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter captures the methods and techniques of data collection and analysis that are to be used by the Researcher when going to the field. It presents the research Methodology used for determining the relationship between Service Quality and Customer Retention. This specific sections include, the study area, study design and study population, data collection, data collection tools ,sample size and sampling procedure, ethical issues, Quality and control and study limitations.

#### **3.2 Study Design**

A research design is the plan, structure or strategy of investigation or arrangement of conditions for collection and analysis of data. (Kumar, Pg 135, 2005). This study adopted a case study design and involved using a chosen case study. In doing so a case study research, "the case" being studied may be an individual, organization, event or action, existing in a specific time and place. In this case, the case was DFCU Bank which is an organization. A quantitative research is the study approach that was applied and it is a study approach concerned with the collection and analysis of data in numeric form. It emphasized relatively large-scale and representative sets of data. Results were generalized into figures, tables and graphs. The study adopted using a cross sectional research design, which sought a relationship between variables under the same come conditions. Across section time dimension means the study lasted for just two weeks.



### 3.3 Study Area

The study was conducted at DFCU Bank, Entebbe Road Branch, Plot 4010, Namasuba-Entebbe Road. Freedom City Shopping mall. DFCU Bank is fully registered as the Development Finance Company of Uganda Bank Limited and commonly known as DFCU.

### 3.4 Study population and sample size

Dooley(1995) considers a population as a collection of all the individual units or respondents to whom the results of a survey are to be generalized. The respondents in this case were customers of DFCU Bank mainly those who are banking at Entebbe Road branch. The customers have no defined number therefore they are an infinite population size.

#### 3.4.1 Sample size

The sample size refers to the total number of sample units or items selected in the sample. Obviously, the sample size must be less than the total number units in the population from which it is drawn (Will Kaberuka, page 37). In this case the population is infinite therefore the sample size is homogenous and needed to be calculated using a defined formula as follows;

$$n = \frac{Z^2(Pq)}{e^2} \text{ where } n, \text{ is the sample size, } Z \text{ is } 1.96, p \text{ is } 0.02, q \text{ is } 0.95 \text{ and } e \text{ is } 0.02$$

$$n = \frac{1.96^2(0.02 \times 0.95)}{0.02^2} = \frac{3.8416 \times 0.019}{0.02 \times 0.02} = \frac{0.0729904}{(4 \times 10^{-4})} = 182.476$$

According to Rascal (1970), a population is infinite and sample size too big for the research, the researcher can use (10-30%) of the sample size. Therefore  $30\% \times 182.476 = 54.9$ , implying that the Sample size the research used was 55 respondents.

### **3.5 Sampling procedure**

This is the process that the researcher used to extract information from the respondents. The researcher went into the banking hall using convenience sampling, distributed the questionnaires to the present customers. Convenience sampling is when only respondents willing to respond to the research activity are given questionnaires. This is sometimes referred to as accidental sampling. Cohen and Manion ,(1994 ) say that in many cases, the nearest individuals, or the ones available at the time of sampling are selected. But Peil (1995) observes that convenience sampling may not lead to the selection of participants who are typical of the population.

Questionnaires were distributed to the respondents until the researcher reached the calculated sample size as seen above and then collected them from the respondents after they had filled them in.

### **3.6 Data Collection**

#### **3.6.1 Data Collection Techniques**

Since the data is quantitative, questionnaires are the main technique that was chosen for the study. This is a method for gathering facts, opinions, perceptions, attitudes, and beliefs. Data about service quality is perceptual and data about customer retention is attitudinal. Because of this, Self - report techniques are more relevant than any other form of collection. Self-report techniques involved seeking information from participants in non-test situations where, the respondent was expected to report his or her feelings, views, opinions, perception or attitude about the issue of concern.

A questionnaire is a device used for gathering facts, opinions, perceptions, attitudes and beliefs. They are usually forms on which written questions or statements presented to

respondents are printed and require written responses through filling in the spaces provided according to the question. The questionnaires were comprised of both close ended and open ended questions. This technique was appropriate because it was time saving and cheap. The researcher used SPSS to summarize the data collected and this software focused on giving descriptive information in form of frequencies, percentage, mean, standard deviation and graphs.

### **3.6.2 Data Collection Instruments.**

There are two types of data that were collected for the study; primary and secondary data. In collection of primary data, the researcher used a semi structured questionnaire as the data collection instrument. A questionnaire is a means used for gathering facts, opinions, perception, attitudes and beliefs. These are forms on which there are written questions or statements that call for written responses to be presented on the spaces provided on the form. Secondary data was obtained through extensive review of online articles, internet, publications, documented files and Journals.

### **3.7 Data Collection Procedures**

The researcher obtained a letter of permission from the university to carry out the research, collected data by administering the questionnaires and interviewing respondents, analyzed data collected and finally wrote a report on the information received and submitted it.

### **3.8 Data Analysis/ presentation procedure**

The questionnaires administered to respondents were collected, recorded, coded and revised. Using SPSS software programs, the data was summarized in tables and descriptive statistics mainly in form of frequencies, figures, numbers and percentages. For statistical analysis, cross tabulations were used and data from interviews was used to further support the information from the questionnaires.

### **3.9 Validity and Reliability of Instruments**

#### **3.9.1 Validity**

Validity is the ability of the research tool to collect data that its sets to collect. According to Odiya James Nicholas,(2009). The validity of an instrument was to collect justifiable and truthful data. Therefore the concept is concerned with the soundness or effectiveness of the instrument since it considers what the instrument measures and how well it measures it. The questionnaires formed were valid.

#### **3.9.2 Reliability**

Reliability is the ability of the research tool to collect data that is replicable which is proved through testing and retesting. The Test-retest reliability involves collection of data about a specific issue of interest from the same group of respondents by use of the same instrument on two different, well spaced occasions. In this study, quality control was done by carrying out a pretest of the questionnaire on the respondents to test the reliability using Chronbach's alpha coefficient. A coefficient of 0.7 and above shows high reliability of data (Saunders, 2009).

### **3.10 Ethical Considerations**

For Formality reasons, the study is approved by Uganda Martyrs University; the university gave the student researcher a formal letter of introduction from the university to the organization being used as the case study. The researcher introduced herself to each respondent prior to giving them a questionnaire. The results were presented in summarized form with no reference to any particular individual confidential purposes.

Citation of books, journals, online articles, newspapers and all other sources were key for each chapter of this dissertation. This justifies the information written and its particular sources and also approves that the research was carried out by the researcher herself.

Voluntary participation during the research, the researcher as a student was not paid for carrying out this research and similarly, the customers who filled in the questionnaires were not paid any fee or bribed to give away information; they filled the questionnaires by choice.

Expert review, each research student was allocated a supervisor who acted as an expert advisor throughout the report writing and collection of information. He or she must be a lecturer of Uganda Martyrs university. These comment and approve the questionnaires, make necessary adjustments, guide researchers on what books to read and many others.

Confidentiality of information from questionnaires, whereby each individual fills in a questionnaire and information collected was summarized to generalize the findings instead of exposing what each individual reports about what the questions requires

### **3.11 Study Limitations**

These are difficulties that the researcher encountered during survey and these included;

- The population study of the research was an infinite population which made deriving the sample size challenging.
- Not every customer accepted to fill in the questionnaire, some accepted will others refused and claimed to be very busy.
- Time constraint.

## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

#### 4.0 Introduction

This chapter presents findings from empirical data collected from the field, the questionnaires, which were the research tool used consisted of questions which were derived for each dimension of the independent and dependent variables respectively as reflected in the conceptual frame work in chapter one, these same dimensions derived our study objectives. These findings were obtained from both primary and secondary sources. They were presented and analyzed using SPSS, frequency tables and percentages which were used to determine the relation between service quality and customer retention.

#### 4.2 Presentations and analysis of Background information

##### 4.2.1 Findings on the gender response

The male respondents were slightly more than the female

**Table 4. 1; Showing Gender response rates**

Gender	Frequency	Percent
Male	28	50.9
Female	27	49.1
Total	55	100.0

Table above reveals that 28(50.9%) of the respondents are Males. while 27(49%) are Fresh.

#### 4.2.2 Findings on age of respondents

**Table 4. 2 Showing age respondents**

Age of group	Frequency	Percent
20-30 years	32	58.2
31-40 years	14	25.5
41 and above	9	16.4
Total	55	100.0

source: primary data

From table 4.2 above, 58.2% of the respondents were within 20-30 years of age, 25.5% within 31-40 years and the remaining 16.4% of respondents were 41 and above. This shows that there was a fair representation of the population as all age groups were represented and the data provided reflected the views of the entire population.

#### 4.2.3 Findings on the level of education of respondents

**Table 4. 3 Showing the level of education.**

Education Level	Frequency	Percent
Diploma	10	18.2
Degree	27	49.1
post graduate	18	32.7
Total	55	100.0

Source: primary data



From table 4.3 above,10 of the respondents hold diploma certificates only,27 of them have a degree only, the rest of the18 respondents are post graduate. This shows that the respondents were literate with a dependable level of reasoning therefore the data collected is reliable.

#### 4.2.4 Findings on the type of accounts of the respondents

**Table 4.4: showing types of accounts**

Type of Account	Frequency	Percent
Savings	37	67.3
investment club	3	5.5
current account	15	27.3
Total	55	100.0

source: primary data

From table4.4 above,37 of the respondents have a savings account,3 only are in investment clubs with an account,15own current accounts. Since the respondents are customers, the ownership of accounts verifies their being customers of DFCU bank, in addition, this shows that the diversity of accounts by make it favorable for different people to bank with DFCU Bank in accordance to the type of account the desire to open.

### 4.3 Presentation and discussion of findings on research objectives

#### 4.3.1 Findings On Reliability And Customer Retention

**Table 4. 5:showing responses to reliability and customer retention**

	N	Min	Max	Mean	Std. Deviation
The turnaround time in the bank is not more than 10 minutes .	55	1	5	3.24	1.201
The mobile banking system is easy to use.	55	1	5	3.35	1.142
Management is very dependable	55	2	5	3.76	.962
Service of the bank are performed right	55	1	5	3.73	1.044
ATM machines function 24hours	55	1	5	4.07	1.200
Valid N (list wise)	55				

source :primary data

##### **4.3.1.1The turnaround time in the bank is not more minutes due to efficiency of staff members**

From table 4. 5 above, majority of respondents agreed that turnaround time in the bank is not more 10 minutes due to efficiency of staff members with a mean value of 3.24.This is in line with the DFCU Bank policy of attending to customers efficiently which further agrees with parasuraman et al (1998)who defines reliability as how the service provider is able to provide

service to a customer right the first time in the right time as promised. However, there was a deviation in respondents' opinion although minimal with a standard deviation of 1.201.

#### **4.3.1.2 The mobile banking system is easy to use and convenient hence promoting continuous accessibility to bank services from anywhere**

From table 4.5 above, majority of the respondents agreed that the mobile money system is easy to use and convenient hence promoting continuous accessibility to bank services from everywhere, With a mean value of 3.35. However, there was a deviation in respondents' opinion although minimal with a standard deviation of 1.142.

#### **4.3.1.3 Management is very dependable in handling customers' service problems by giving quick solution and feedback on complaints received**

From table 4.5 above, most of the respondents agreed that management is dependable in handling customers' service problems by giving quick solutions and feedback on complaints, with the mean value of 3.76, This is in agreement with Parasuraman et al (1998) who mentions dependability in handling customers' problems as part of reliability that leads to satisfaction of service due to a positivity towards perceived value and value received. However, there was a deviation in respondents' opinion although minimal with a standard deviation of .962

#### **4.3.1.4 Service of the bank are performed right the first time, in the right place as informed by the bank.**

From table 4.5 above, most respondents agreed that service in DFCU bank is performed right the first, time, in the right place with a mean value of 3.73. This is in agreement with Parasuraman et al. (1998) who states that reliability involves performing services right the first time, provide the service at a promised time and keep customers informed about when

the services will be performed. However there was a deviation in respondents' opinion although minimal with a standard deviation of 1.044 ,

**4.3.1.5 ATM machines function 24 hours which makes it convenient to withdraw money all day long, even during public holidays they operate**

From table 4.5 above, majority respondents agreed that ATM machine function 24 hours which makes it convenient to withdraw whenever need with mean value of 4.07. This is in agreement with the banks' strategy of keeping ATM'S in use 24/7 for accessibility of money especially in non working hours. However there was a deviation in respondents' opinion although minimal with a standard deviation of 1.200,

**4.3.2 Findings on correlation of Reliability and Customer retention**

**Table 4. 6; Pearson Correlation**

	Reliability	Customer Retention
Reliability	1	0.306
Customer Retention	0.306	1

Correlation is significant at the 0.05 level(2-tailed)

Findings from table 4.6 indicate that there is a positive and significant relationship between Reliability and Customer Retention. This is shown by a Correlation of  $r=0.306, p \leq 0.05$ . This is in agreement with Parasuraman(1998) who explains that a service provider is considered reliable when the firm is able to provide a service as promised ,dependable in handling customer's problems and provide services right the first time, this brings about customer satisfaction and loyalty which lead to customer retention.

#### 4.4 Findings on Empathy and customer retention

**Table 4. 7;showing descriptive Statistics of findings on empathy in the bank and customer retention**

Statement	N	Min	Max	Mean	Std. Deviation
The bank staff are caring ,helpful and understanding	55	1	5	4.07	.716
Responsiveness to customer's complaints	55	1	5	3.78	.917
customer profitability is a key focus objective	55	1	5	3.20	1.129
After services such as message alters	55	1	5	3.64	1.310
Service provision is Professional	55	1	5	3.95	.951
DFCU Bank's slogan	55	1	5	3.85	1.096
Valid N (list wise)	55				

Source; primary data

From table4. 7; The statistics show that customer agree the that the existence of Empathy with service provided has a relatively high influence on customer retention. Empathy is more of receiving love, special care and attention and humanly, every one desires the above to have a sense of belonging and satisfaction.

##### **4.4.1.1The bank staff are caring, helpful and understanding to various kinds of their customers hence providing good customer care services**

From table 4.7 above, majority of respondents agreed that the bank staff are caring, helpful and understanding to various kinds of their customers hence providing good customer care services

with a mean value of 4.07 .This is in line with Parasuraman et al(1998) who defines empathy as the dimension of service quality that shows the firm's ability to render individual attention, deal with customers in a caring way and understanding the customers' needs. However, there was a deviation in respondents' opinion although minimal with a standard deviation of .716.

#### **4.4.1.2The management assures responsiveness to customer's complaints which makes them feel important and understood**

From table 4.7 above, most of respondents agreed that the management assures responsiveness to customer's complaints which makes them feel important and understood with a mean value of 3.78 .This is in line Parasuraman et al(1998) who comments on the act of empathy saying that customers want to feel understood and important to the service providers, firm. This shows that customers can easily express their concerns and compliments to management without fear of being rejected or ignored. However, there was a deviation in respondents' opinion although minimal with a standard deviation of ..917.

#### **4.4.1.3 customer profitability is a key focus objective of the bank as means of curbing loss of customers to other banks hence promoting customer retention**

From table 4.7 above, majority of respondents agreed that customer profitability is a key focus objective of the bank as means of curbing loss of customers to other banks hence promoting customer retention with a mean value of 3.20.This is in line with Ibid) who states that for many banks, customer profitability is skewed in such a way that losing the most profitable customers has an effect on the total customer profitability and therefore retention programs are put in place to minimize customer defection. However, there was a deviation in respondents' opinion although minimal with a standard deviation of 1.129.

**4.4.1.4 After services such as message alters, account updates and phone calls are provided which render individual attention hence creating a feeling of value and a sense of belonging**

From table 4.7 above, most of respondents agreed that ,after services such as message alters, account updates and phone calls are provided which render individual attention hence creating a feeling of value and a sense of belonging with a mean value of 3.64 .This is in line with Parasuraman et al (1998) who emphasizes that customers want to feel understood and important to the service provider's firm which is depicted from the after services the bank provides. However, there was a deviation in respondents' opinion although minimal with a standard deviation of ..1.310.

**4. 4 .1.5 Service provision is professional and captures the customer's best interest at heart which promotes retention of many customers**

From table 4.7 above, majority of respondents agreed that service provision is professional and captures the customers' best interest at which promotes retention of many customers with a mean value of 3.95 .This is in line with Parasuraman et al(1998),who states that having the customer's best interest at heart and understanding their needs is part of empathy as a dimension of service quality. However, there was a deviation in respondents' opinion although minimal with a standard deviation of .951.

**4.4.1.6 DFCU Bank’s slogan is known as DFCU...''WITH PLEASURE, ''Is this slogan portrayed**

From table 4.7 above, majority of respondents agreed that the slogan known as "DFCU...with pleasure" is portrayed in daily operations of the bank with a mean value of 3.85. This is in line with the bank's slogan. However, there was a deviation in respondents' opinion although minimal with a standard deviation of 1.096.

**4.4.2 Showing a Relationship between Empathy and Customer Retention**

**Table 4. 8; Pearson Correlation**

		Empathy	Customer
Empathy	Pearson Correlation	1	.387
Customer Retention	Pearson Correlation	.387	1

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

Findings from table 4.8, indicate that there is a positive and significant relationship between Empathy and Customer Retention. This is shown by a Correlation of  $r=0.387, p \leq 0.01$ . This is in line with Parasuraman et al (1998) who says that customers want to feel understood and of importance to the service provider, Empathy fulfills this desire in customers and therefore it leads to Customer retention in firms where they receive the Empathy.



#### 4.5 Findings on assurance and customer retention

**Table 4.9, showing descriptive Statistics**

Statement	N	Min	Max	Mean	Std. Deviation
The perceived value	55	2	5	3.84	.714
Transactions are safe ,quick and error free	55	1	5	4.04	.999
Information is kept confidential	55	1	5	4.07	.920
The staff handle customer inquiries	55	1	5	3.82	1.038
knowledgeable staff are hired	55	1	5	3.65	1.058
Valid N (list wise)	55				

source; primary

##### **4.5.1.1The perceived value of service by a customer is an effect of the quality of service the bank provides**

From table 4.9, majority of respondents agreed that the perceived value of service that a customer has is equivalent to the quality of service the bank provides with a mean of 3.84 .This is in line with Gan et al(2006) who said that quality of service as perceived by the customer has an effect on the perceived value of service, once customers are satisfied with the service of a particular organization, the propensity to stay and lure other potential customers is high.

However, there was a deviation in respondents' opinion although minimal with a standard deviation of .714.

#### **4.5.1.2 Transactions are safe, quick and highly error free instills a high level of confidence in customers**

From the table 4.9, most of the customer respondents agreed that transactions are safe, quick and highly error free instills a high level of confidence in customers with a mean of 4.04. This agrees with Fitzersimmons(2008), who defines assurance as the ability of employees to instill confidence in customers, making them feel safe with their transactions, consistently being courteous towards customers. However, there was a deviation in respondents' opinion although minimal with a standard deviation of .999; a few disagree with this statement.

#### **4.5.1.3 Information is kept confidential and can only be accessed by the managers, auditors and the owner of the account**

From table 4.9, majority of the respondents agreed that Information is kept confidential and can only be accessed by the managers, auditors and owner of the account with a mean of 4.07. This agrees with the bank's policy of confidentiality. On the other hand, there was a deviation in respondents' opinion although minimal with a standard deviation .920 showing that a these disagree.

#### **4.5.1.4 The staff handle customer inquiries appropriately and courteously answer questions asked by customers**

From table 4.9; majority of the respondents agreed that the staff handle customer inquiries appropriately and courteously answer questions asked by the customers with a mean value of 3.82, this is in agreement with Fitzersimmons(2008) who further states that assurance involves being consistently courteous towards customers, and having the ability to answer their questions appropriately. However a few customers disagreed with this with a standard deviation of 1.038.

**4.5.1 knowledgeable staff are hired in order to render quality service to customer which promotes customer satisfaction**

From table 4.9; most of the respondents agreed with the statement that Knowledgeable staff are hired in order to render quality service to customers which promotes customer satisfaction with a mean of 3.65, however there is a deviation though minimal with a standard deviation of 1.058.

**4.5.2 Showing Correlation between Assurance and Customer Retention**

**Table4. 10. Pearson's correlation**

	Assurance	Customer retention
Assurance	1	0.645
Customer retention	0.645	1

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

Findings from table 4.10, indicate that there is a positive and significant relationship between Assurance and Customer Retention. This is shown by a Correlation of  $r=0.645, p \leq 0.01$ . This is in agreement with Fitzersimmons et al(2008) who explains this at more than often, customers look out for assurance from employees and expect that the employees will behave confidently and instill in their customers in accordance to how safe their transactions are especially in service business such as Banking.

**4.6 Findings on customer retention with its dimensions as customer satisfaction and loyalty.**

**Table 4. 11. : Showing Findings on Customer Satisfaction Loyalty**

Statement	N	Min	Max	Mean	Std. Deviation
The Bank's customer care facilitation		1	5	3.67	.904
The Bank's services are professional	55	1	5	3.84	.958
The atmosphere is homely	55	1	5	4.00	.981
The effectiveness of the level of customer service enhances customer retention	55	1	5	3.69	.960
The Bank gives financial benefits	55	1	5	3.45	1.184
Already existing customers	55	1	5	3.87	1.139
The Bank values people	55	1	5	3.45	1.119
Changes in customer preferences	55	1	5	3.82	.841
A minimum price is charged	55	1	5	3.84	1.067
Valid N (list wise)	55				

Source; primary data

#### **4.6.1 The Bank's customer care facilitation and staff attendance to customers is satisfying**

From table 4.11, majority of the respondents agreed that the Bank's customer care facilitation and staff attendance to its customers is satisfying with a mean value of 3.67, however, there is a deviation that shows that some disagree with a standard deviation of .904

#### **4.6.2 The Bank's services are professional, efficient, effective and highly free from errors**

According to table, most of the customers agreed that the Banks' services are professional, efficient, effective and highly free from errors, with a mean value of 3.84, However there is a deviation although minimal showing a few that disagreed.

#### **4.6.3 The atmosphere is homely and very welcoming**

Majority of customers agree that the atmosphere in DFCU Bank is very homely and welcoming, with a mean of 4.00 as shown in the table above. However, some customers disagree with this statement with a standard deviation of .981. Atmosphere is a key issue considered for attracting customers.

#### **4.6.4 The effectiveness of the level of customer service enhances customer retention hence reducing the switching among service providers and serves as the edge over other competitors**

From table 4.11 above, majority of respondents agreed that the effectiveness of the level of customer service enhances customer retention hence reducing switching among service providers and serves as the edge over other competitors with a mean of 3.69. However, there was a deviation in respondents' opinion although minimal with a standard deviation of .960.

#### **4.6.5 The Bank gives financial benefits, social benefits and forms structural ties in order to build and sustain its loyal customers**

Most of the customers, agreed that the Bank gives financial benefits, social benefits and forms there is a positive and significant relationship between Assurance and Customer Retention. which is shown by a Correlation of  $r=0.645, p \leq 0.01$ . Structural ties in order to build and sustain its loyal customers with a mean of 3.45, This agrees with Kotler & Keller (2006) who identified three retention building approaches; through adding financial benefits, social benefits and structural ties. However there was a deviation since a few of them disagreed with a standard deviation of 1.184.

#### **4.6.6 Already existing customers should recommend friends or relatives to join DFCU Bank**

Majority of the customers agreed that already existing customers should recommend friends or relatives to join DFCU Bank With a mean of 3.87, This is in agreement with Kandampully and Suhartanto (2000), these find out that customer satisfaction has a large positive correlation with customer loyalty in some banking sector, these supported the relationship of strong correlation of customer satisfaction and customer loyalty means that the banks' customers will recommend the bank to other people. These are the ones who are loyal to the bank and are satisfied with its quality service. However, a few of them represented by a standard deviation of 1.139 disagree with the above statement, and are most likely the ones that are not yet satisfied with the banks' services, are not willing to recommend others and hope for better in other financial institutions.

#### **4.6.7 The Bank values people and relationships a head of the short term goals therefore customers receive their desired value**

From table 4.11 above, majority of respondents agreed that the Bank values people and relationships a head of the short terms of the banks therefore customers receive their desired value with a mean of 3.45..However, there was a deviation in respondents' opinion although minimal with a standard deviation of .1.119 as shown above.

#### **4.6.8 Changes in customer preferences and spending patterns influences the customers' behaviors**

Majority of respondents agreed that changes of customer preferences and spending patterns influences the customers' behavior. With a mean value of 3.82, This is in line with Oliver (1999). Elaborates that all service encounters offer an opportunity to provide superior service quality and distinguish the firm from its competitors but the changing customer preferences and spending patterns will influence consumer's behavior, for example, it was found that banks customers transferred their account to alternative provider because of lifestyle changes such as marriage or moving house. However there was a deviation in respondents' opinion although minimal with a standard deviation of .841 as shown above.

#### **4.6.9A minimum price is charged for maximum usage and profit gains of some services such as the ATM machine in order to maintain a high level of satisfaction.**

Majority of the customers agreed with that, a minimum price is charged for maximum usage and profit of some services such as the ATM machine in order to maintain a high level of satisfaction with 3.841,This agrees with Jamal and Kamal,(2004) who state that the level of satisfaction is always high when the customer gives minimum price and gets maximum of usage and profit. However there was deviation in customers opinion although minimal with a standard deviation of 1.607.

## CHAPTER FIVE

### SUMMARY FINDINGS, CONCLUSIONS AND RECOMENDATION

#### 5.1 Introduction

The purpose of this chapter is to discuss the findings, draw conclusions to the results presented in chapter four .The chapters also contains recommendations and conclusions according to the objectives of the study. It finally ends with suggestions for further research.

#### 5.2 Summary of findings with respect to the study objectives

##### 5.2.1 Reliability and Customer retention

According to the research carried out, there is a positive and significant relationship between reliability and customer retention which is shown by a Correlation of  $r = 0.306, p \leq 0.05$ . When services are reliable, they increase the level of trust a customer has in the firm which brings about satisfaction and loyalty that lead to customer retention. Bank services in DFCU Bank are dependable, effective, quick and safe, which makes customers attracted to the company unlike the competitors.

In addition DFCU Bank has various branches that are interconnected spread across the country, this makes their services reliable and available to find, others use Mobile money services to access their personal accounts anywhere at any time this has increased the retention level.

##### 5.2.2 Empathy and Customer retention

According to the findings during the research, there is a positive and significant relationship between Empathy and Customer Retention. This is shown by a Correlation of  $r = 0.387, p \leq 0.01$ .



A firm's ability to render individual attention, deal with customers' in a caring way, having customers' best interest at heart and understanding their needs makes them feel important and understood. This also depicts that the bank values customer-business relationships amongst other goals. In the long run all the above efforts make customers receive their desired value and as long as a customer feels valued by a firm, it has won this customers' heart hence making them loyal to it.

### **5.2.3 Assurance and Customer retention**

According to the research findings, there is a positive and significant relationship between Assurance and Customer Retention which is shown by a Correlation of  $r=0.645, p \leq 0.01$ . Assurance is when a customer is confident in having business relations with a specific company. For a bank as a business firm, assurance is customers being confident of keeping their money and know that it is safe and error free. When bank transactions of are safe, quick and highly error free, customers instill a high level of confidence in the professionalism of bank workers and the system its self which will make them feel satisfied with the service render hence their loyalty to the bank which is considered as customer retention by the management.

Since there is stiff competitions within the banking sector, customer retention is the best way to gain competitive advantage is ability to have high retention levels, DFCU Bank is one of the few banks that pay detail to this cause, therefore customers are well assured.

### 5.3.0 Conclusions

According to the research, majority of the respondents agree that DFCU Bank has a relatively high service quality system. Some of the elements that this system consists include, accuracy, efficient, easy accessibility, flexibility, effectiveness to mention but a few. What most customers who are the respondents perceive service quality as a result of comparison between their expectation as customers with their perception of the service being delivered currently by the service providers. What some customers agree is of quality, others although minimal disagree.

From the research that was carried out, findings shows that DFCU Bank has a relatively high customer retention level, this is depicted by the mean values under table 4.12 that show that majority of the respondents agreed with the various statements that embraced customer retention positively and yet those that disagreed were very few in number.

Customer retention in DFCU is influenced by the satisfaction customers receive from the quality of services it renders to them, such as services are reliable, full of empathy and customer care and assuring to customer in terms of safety of their money. It is evident that a full package of all the above combined brings about customer loyalty hence customer retention in DFCU Bank

## 5.4 Recommendations

Management should continuously make an effort to receive feedback from the customers in order to know the interest and needs of customers and make strategies to fulfill them, also to discover loop holes in the system that need filling up and lastly all areas that require change or improvement for better service delivery. Knowledge of the issues above will give the bank a high competitive advantage over its rivalry firms such as other commercial banks.

Management should increase loyalty programs which will support it build stronger relationships, the more relationships, the more ties with customers which will rather increase the level and reasons for retention of customers.

Furthermore, since there are many finance institutions such as banks, micro finance firms, mobile money and many more, the bank has to focus customer turn over to increase customer retention and minimize customer defection since those that leave the bank have many other substitutes

Management should continue improving availability of bank services that are quick and easy to access, due to high competition in the financing sector the more convenient, efficient, standardized and effective the system of service is, the more customers a business is likely to attract hence customer retention. "It's one thing to get customers but it's another to strive keeping the ones has and also attract more" ,therefore besides making profits, the bank should pay more attention to retention as well because in the long run ,customer retention brings about profit yet not all firms that make profit are able retain their customers.

## **5.5 Suggestions for further research**

The study did not exhaust all possible dimensions under service quality that affect customer retention therefore more investigation should be conducted on the following dimensions under service quality, the independent variable.

1. Tangibility and customer retention
2. Responsiveness and customer retention

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## APPENDICES

### APPENDIX ONE

#### QUESTIONNAIRE FOR CUSTOMERS

Dear Respondent,

I am **Nansubuga Joan** a third year student at Uganda Martyrs University Rubaga branch, pursuing a Bachelor's degree in Business Administration and Management, specializing in Marketing.

As one of the partial requirements for the Award of a Bachelor's Degree in Business Administration and Management at Uganda Martyrs University, am conducting a study Focusing on the relationship between "**Service Quality and Customer retention** "using DFCU Bank ,Entebbe branch as my case study. Therefore, I wish to request you kindly to spare some time and answer the questions below as honestly as possible by ticking in the spaces provided. The information given will be purely for academic purposes and will be confidentially kept. Thank you for your cooperation.

#### SECTION A: BACK GROUND INFORMATION (PLEASE TICK IN THE APPROPRIATE BOX)

1. Sex:      Male                      Female   

2. Age: 20 – 30 years     31 – 40 years     41 and above years

3. Level of Education:

Primary        Secondary        Diploma        Degree & Post –graduate

Others (specify) .....

4. Which type of account did you open with DFCU Bank?

Fixed deposit account  Savings account

Investment Club account  Current account

5. How long have you been a customer of DFCU Bank?.....

**SECTION B: SERVICE QUALITY**

Please indicate the extent to which you agree with each of the following statements about the Bank by indicating with a tick in the box of your choice. Use the key below when answering the following questions: Apply a tick where applicable using the following key.

1– Strongly disagree, 2 – disagree , 3 – Not Sure, 4 – agree and 5 – Strongly agree

**RELIABILITY AND CUSTOMER RETENTION**

STATEMENT	1	2	3	4	5
The turnaround time in the bank is not more than 10 minutes due to efficiency of staff members					
The mobile banking system is easy to use and convenient hence promoting continuous accessibility to bank services from anywhere.					
Management is very dependable in handling customers' service problems by giving quick solution and feedback on complaints received					
Service of the bank are performed right the first time, in the right place, at the time as informed by the bank. (This considers the designated working hours.)					



ATM machines function 24 hours which makes it convenient to withdraw money all day long, even during public holidays they operate.					
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Does Reliability of DFCU Bank services affect your decision of banking with DFCU instead of other banks? YES OR NO, Give reason(s)

**SECTION C: EMPATHY AND CUSTOMER RETENTION**

STATEMENTS	1	2	3	4	5
The bank staff are caring , helpful and understand to various kinds of their customers hence providing good customer care services					
The management assures responsiveness to customers complaints which makes them feel important and understood.					
Customer profitability is a key focus objective of the bank as a means of curbing loss of customers to other banks hence promoting customer retention					
After services such as messages alerts, account updates and phone calls are provided which render individual attention hence creating a feeling of value and a sense of belonging					
Service provision is professional and captures the customers' best interest at heart which promotes retention of many customers					

DFCU Bank's slogan is known as DFCU.....WITH PLEASURE",Is this slogan portrayed?					
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2. Do you find a relationship between the Empathy you receive as customer and the willingness of you to remain a loyal customer of DFCU Bank unlike other banks? . If yes, explain.

**SECTION D: ASSURANCE AND CSUTOMER RETETION**

STATEMENT	1	2	3	4	5
The perceived value of service that I have as a customer equivalent to the quality of service the bank provides					
Transactions are safe , quick and highly error free which instills a high level of confidence in customers					
Information is kept confidential and can only be accessed by the managers, auditors and owner of the account.					
The staff handle customer inquiries appropriately and courteously answer questions asked by customers.					
Knowledgeable staff are hired in order to render quality service to customer which promotes customer satisfaction					

Based upon your experience, please give the reason as to why assurance is an important aspect that attracts you to banking with DFCU Bank?

## SECTION E CUSTOMER RETENTION

### CUSTOMER SATISFACTION AND LOYALTY

STATEMENT	1	2	3	4	5
The Bank's customer care facilitation and staff attendance to customers is satisfying					
The Bank's services are professional, efficient, effective and highly free from errors					
The atmosphere is homely and very welcoming					
The effectiveness of the level of customer service enhances customer retention hence reducing switching among service providers and serves as the edge over other competitors.					
The Bank gives financial benefits, Social benefits and structural ties in order to build and sustain its loyal customers.					
Already existing customers should recommend friends or relatives to join DFCU Bank					
The Bank values people and relationships a head of the short term goals therefore customers received their desired valued					
Changing of customer preferences and spending patterns influences the customers' behavior					
A minimum price is charged for maximum usage and profit of some services such as the ATM machine in order					

to maintain a high level of satisfaction.					
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Are you willing to continue being a customer of DFCU Bank, does it deserve your loyalty? If Yes/No, give a reason(s) for your choice.

Do you find it relevant for the Bank to establish and sustain a strong relationship between their business operations and their customers? If yes, explain.