decision to buy a product or an offering, (Byrne, 2003). In addition, Forrester (2007), indicates that the typical customer life cycle of a financial services includes opportunities to improve the customer experience at every stage.

Therefore, the best practices for each stage in the customer experience life cycle are: target the right customers with the right value proposition, start a positive relationship through acquisition, incorporate customer advocacy into day-to-day service and develop relationships to increase stickiness. The theory will inform the study by allowing analysis of how new products innovation will play a role in contributing towards improved performance of the commercial banks.

2.1.3 Social Exchange Theory

Thibaut (2000), suggested long term relationships go through four stages: sampling - costs and rewards are explored; Bargaining - negotiation of rewards and costs are agreed; Commitment - exchange of rewards and acceptance of costs stabilize, there is now focus on relationship; and Institutionalization - norms and expectance are firmly determined.

The main idea behind social exchange is everyone tries to maximise the rewards they obtain from a relationship and try to minimize the costs. If the relationship is to be successful then both parties are expected to give and take in equal proportions, (Kelley, 2002). Social exchange theory is a major component in customer retention for commercial banks in that they benefit from successful relationships with their customers.

2.1.4 Theory of Product Differentiation

When looking at differentiation, four main factors have been identified as characterising a service : intagibility, inseparability, heterogeneity and perishability (Zeithalm & Bitner, 2003). The theoretical model of endogenous reference-dependence of Ok, Ortol-eva and Riella (2011), is applied to the theory of vertical product differentiation. The standard problem of a monopolist who offers a menu of alternatives to consumers of different types is analysed, but allows them to exhibit a form of endogenous reference dependence like the attraction effect.

Egan (2004), has been noted as one of the first to introduce the concept of relationship marketing which he defined as the attracting, the maintaining and the enhancing of customer relationships. Commercial banks must be innovative and should offer attractive products that guarantee retention of their customers.

2.2 Conceptual Framework

A conceptual frame work can be defined as a set of broad ideas and principles taken from relevant fields enquiring how to structure a subsequent presentation (Reichel & Ramey, 2007). As a research tool, it is intended to assist the researcher develop awareness and understanding of the situation under scrutiny and communicate it. The conceptual framework of this study will include independent variables, location, Credit process, pricing and customer service. Independent variables are the factors that the researcher thinks that they will explain the variations while the dependent variables are those that the researcher attempts to predict (Orodho & Kombo, 2002). The conceptual framework identifies the independent variables that affect the dependent variable which is performance of commercial banks in Kenya.

3. Research Gaps

A number of studies have been done relating to customer retention and its effect on performance but few have exploited on the implication of performance of banking institutions. Commercial banks are reactively rather than proactively trying to hold onto customers due to lack of clear metrics on what attrition is and no enterprise focus on the problem, Pilecki (2007). According to him, customer retention is a process, not an event.

To ensure success of customer retention strategy, it is important to consider the uniqueness of the situation and the diversity of the customers, (Khan et al., 2010). This is because a critical understanding of what works and what does not work is central in designing and managing effective customer retention strategy.

Previous researchers have recorded the importance of customer retention in an effort to improve performance of commercial banks. However, there still lacks in depth understanding of which strategy is ideal for customer retention. To fill the gaps, the study aimed at determining the effects of customer retention strategy on performance of commercial banks in Kenya.

3.1 Data Analysis and Presentation

Data collected for the study was compiled, sorted, edited, classified, coded and analyzed using a computerized data analysis package known as SPSS 20.0. Descriptive statistics was used to depict the characteristics of the population. The mean and the variance were calculated using SPSS. This study used multiple linear regression. In general a four variable linear regression model of the form illustrated below was used:

$$Y_i = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} + \beta_3 X_{i3} + \beta_4 X_{i4} + \varepsilon_i$$

Where:

Y_i = Performance in commercial banks

X_{i1}= Location

X_{i2}= Credit process

X_{i3}= Pricing

X_{i4} = Customer service

ε_i= Is the error term

β_0 = intercept

β_i= Are the unknown parameters (regression coefficients).

The model helped in determining if there is a relationship between customer retention strategy and performance of commercial banks in Kenya.

Correlation analysis is a statistical technique which is used to determine the strength of relationship between two variables.

This relationship can be linear or inverse. A numerical measure of this relationship is called Pearsons'correlation coefficient(r):

The strength of relation is quantified as;

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r = 1; shows a direct linear relation between variables
r = 0; shows that there is no relationship between variable
r = -1; shows a direct inverse relationship between variables.
r > 0 ; shows some direct linear relationship between variables
r < 0 ; shows some inverse relationship between variables
In this research, correlation analysis was used to determine the strength of relation between the performance of commercial banks in Kenya and location, credit process, pricing and customer service.
Chi-square test of independence is a test used to determine whether one variable is independent of the other. It uses contingency tables to evaluate the independence under the null hypothesis of independence between variables.
In this research, chi-square test of independence was used to test the independence between the performance of commercial banks in Kenya and location, credit process, pricing and customer service.
From the results obtained, interpretation and generalization was made and thereafter conclusions were drawn.
Qualitative data which involves quality or kind was measured through interviews to understand customers and employees behavior. Further the researcher used qualitative to understand how customers and employees feel or what they think about their institutions. Quantitative data was based on measurements or quantity or amount.

3.2 Data Presentation

Quantitative data was presented using Frequency tables, Pivot tables and Contingency tables.
Qualitative data was derived from the open ended questions in the questionnaire. The responses were assessed thoroughly and organised in to various categories, distinct from each other and the relationship among the identified categories established. Codes were used to generate themes and categories. Once the themes, categories and patterns were identified, the study evaluated and analysed the data to determine the adequacy of the information and the credibility, usefulness, study consistency and validity in answering the study question. From this information, the study developed narratives and interpretive report in order to explain and reflect the situation within the commercial banks.

4. Methodology

There are 43 listed commercial banks (Appendix III). The banks are arranged in terms of tier one, two three and four. The target population of this study comprised of 736 employees and customers of the five banks in tier one. The sample size comprised of 35 employees and customers.

Sampling is the process of selecting respondents from the target population, (Mugenda, 2008). In a statistical survey with varying population ; it's advantagoues to sample each sub group independently. Each element in the population is assigned to only one subgroup and no element should be excluded.
The sample size was arrived at using the following formula:

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

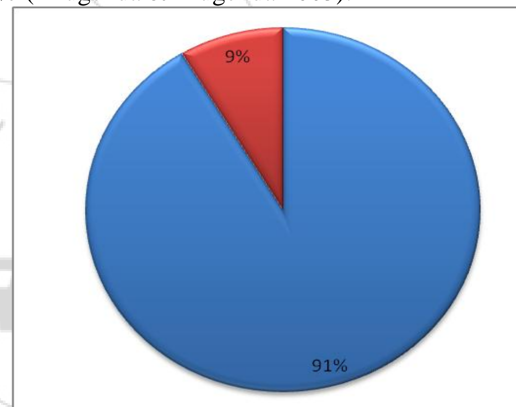
Where, n, is the sample size,
N, is the population size,
C, is the coefficient of variation which is $\leq$ 30%, and
e, is the margin of error which is fixed between 2-5%
The study sample was calculated at thirty percent coefficient of variation and five percent margin of error. Thirty percent coefficient of variation was used to ensure that the sample is enough to justify the results being generalized for the banks. Higher coefficients of variation were not used to avoid very large samples due to time and financial constraints. Five percent margin of error was used because the study necessitated relatively higher margin of error.
Thus the sample size was determined through the following calculations;

$$n = \frac{736*(0.5)^2}{0.5^2 + (736-1)*0.05^2} = 35$$

The sample size comprised of 35 employees and customers.

5. Results and Discussion

The study was able to get a response from 32 respondents out of the 35 questionnaires distributed to the respondents in the study area. This response rate was considered adequate for reporting as it exceeded the generally accepted threshold of 50% (Mugenda & Mugenda 2003).



Respondents by Age
The results indicate that 65.6% of the respondents were in their middle age between 20 and 40 years. This means that most of the banks employee population was made up of the middle age bracket.

6. Location

The findings indicate that the banks had opened agencies (68.8%) and many ATMS (46.9%) to continue serving customers conviniently in places where there were no branch presence. Most of the banks pofitability increased (43.8%) as more branches are opened. Based on the findings the respondents indicated that their banks had opened agencies (40.6%) where there were no branches and that more branches and delivery channels were necessary for higher performance (40.6%).

7. Credit Process

It was evident that credit underwriting practices are applied clearly objectively and consistently (31.3%). The respondents also felt that the credit history for customers is

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considered in the underwriting process (50%) which means customers retention is important in credit decision making. The results also reveal that credit reference checks are part of credit underwriting (50%) which implies that the banks are keen to reduce credit extension to potential defaulters. The results further show that management classifies borrowers based on repayment record (62.5%) which also reduces chances of default whereas this encourages growth of a healthy loan book due to repeat borrowing by the retained customers. Turnaround time in processing loan applications was low (50%) and that the banks have streamlined decision making to remove bottle necks in loan processes (68.8%).

8. Pricing

The findings revealed that products are priced based on individual customer relationships (40.6%). Profitability was not the key pricing objective (37.5%) which meant that there are other factors such as administrative costs, risk score and expenses that determined pricing. The findngs also reveal that there should be a loyalty on discount to loyal customers on loan interest and bank charges (37.5%). The findings also reveal that pricing conveys a corporate image of a bank (50%) since customers are able to compare pricing from one bank to another and will settle for the low priced one. Most (71.9%) of the respondents also felt that their bank is concerned with customer price sensitivity and elasticity issues. Banks adhered to legal restrictions on price maintenance (62.5%) majorly on the base rate which is determined by the CBK. Most banks did not display their pricing tariff (65.6%) and customer had to make enquiries about tariffs prior to accepting offer letters to various products.

9. Customer Service

The findings in the study suggest that the banks had a clear picture of what the key customer segments are and how they can be assisted to meet their needs (39.5%). Proactive retention programmes that identify customers who are likely to attritite were available (59.2%) and such customers were interviewed by the banks in a bid to retain them and avoid losing them to competion and that sales and service representatives are trained to recognize retention threats (53.9%). The findings revealed that most banks (56.3%) have a simple, expedited process for opening a primary account with its commonly cross-sold products. The results also reveal that the banks have an incentive compensation programme in place that rewards for saving customers (50%). Finally, automated services such as ticketing and internet have improved customer service and retention (71.9%). These findings imply that most banks were embracing more tehnology oriented solutions such as automated loan orignation systems and virtual banking.

10. Conclusions

From the foregone discussion on the observed findings, we conclude that a significant relationship exists between customer retention strategy and the performance of commercial banks in Kenya. Customer retention contributes highest to bank market share, growth and profitability. Consequently, the implication of the study are that Kenyan banking sectors should generally increase their customer retention strategies so as to enhance their level of business viability and specifically review their customer attraction and retention policies in order not to lose customers to competitors. Based in the above, we conclude as follows:

That the key problems of customers' retention strategies are influenced by a series of distinct gaps often neglected byt the commercial bank. Therefore, a key challenge for commercial banks and scholars in this field is to device methods to measure these gaps accurately in the market.

Secondly, that although some variables exhibit weak associations, further research is needed to examine the nature of the association between customers' retention and its determinants.

Thirdly, the usefulness of segmenting consumers on the basis of their expectations is worth exploring its possibilities with the commercial banks.

11. Recommendations

The management of commercial banks should charge competitive interest rates, favorable account charges and administrative fees that will guarantee customer retention. Favorable fees and charges will reduce chances of credit facilities being defaulted and further, the customers will not move to other competitors.

Commercial banks should introduce more credit products in their institutions to improve customer retention. There is need for management to ensure that staff members are well trained and are aware of the credit products and policy in place. Finally it is also recommended that commercial banks should attempt to segment their market to match customer needs and firm capabilities by managing customer base via effective tie ring of service delivery of quality services as well as conducting churn diagnostic monitoring of declining/defecting customers.

11.1 Suggestions for Further Research

The main aim of the study was to determine the role of customer retention strategy on the performance of commercial banks in Kenya. More studies need to be done on customer satisfaction, and customer relationship management and whether there exists an impact on the performance of commercial banks.

Although some variables exhibited weak associations, further research is needed to examine the nature of the association between customers' retention and its determinants.

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