



MAKERERE UNIVERSITY BUSINESS SCHOOL

**SERVICE QUALITY, SAVER TRUST AND CUSTOMER RETENTION IN SACCO'S IN
MBARARA CITY**

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**A RESEARCH DISSERTATION SUBMITTED TO MAKERERE UNIVERSITY IN
PARTIAL FULFILMENT OF THE AWARD OF MASTER'S DEGREE IN
BUSINESS ADMINISTRATION OF MAKERERE UNIVERSITY
BUSINESS SCHOOL (FACULTY OF GRADUATE
STUDIES AND RESEARCH)**

NOVEMBER, 2023

PLAN A

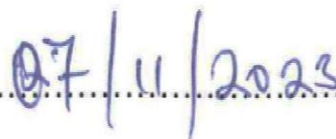
Declaration

I, Nuwagira Aggrey hereby declare that this dissertation is my original work and has not been presented for a degree in any other University or Institution.

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Date



Approval

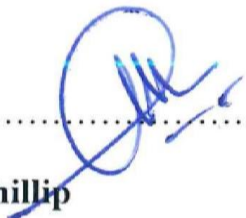
This dissertation has been submitted for examination with our approval as University Supervisors

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Acknowledgement

This dissertation is a product of various contributions from different people. I am very grateful and indebted to them all, however, I feel obliged to mention some of them because without their prior guidance, assistance, and encouragement I may never have been able to finish this study. Special appreciations go to the Almighty God for the gift of life, wisdom, spiritual nourishment, and good health. I will always live to glorify your name.

First and foremost, I would like to express my special thanks to the management of Makerere University Business School for their guidance and material package which were provided to me during the whole period of my studies in the University.

I owe many thanks to my supervisors, Dr. Ahimbisibwe Godwin and Mr. Mubiru Phillip. I thank you for your constant motivation, guidance, encouragement, and advice during my research proposal development, field data collection, and data analysis up to this moment of writing this dissertation.

Lastly, I say that any type of contribution of any kind of support to my study and research work from anyone who did so was important and timely availed such that it greatly added to the success of the research work, hence I highly appreciate all efforts made.

May the Almighty God bless you all.

Dedication

This dissertation is dedicated to my parents for having sacrificed whatever they could to enable me to achieve my career aspirations.

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Abstract

The study sought to establish the relationship between service quality, saver trust and customer retention in Sacco's in Mbarara City.

The study adopted a cross sectional research design using a sample size 52 Sacco's in Mbarara City was determined using Krejcie and Morgan (1970). The choice of city is because it has the highest concentration of Sacco's compared to the other new cities economic in Uganda (UBOS, 2017). The data were tested for reliability and validity, analyzed using SPSS version 26 and results presented based on the study objectives.

The correlation coefficient analysis revealed positive and significant relationships between service quality, saver trust and customer retention in Sacco's in Mbarara City which implies that when one variable is improved it leads to improvement of the other. Therefore more emphasis should be put on improvement of all the activities related to service quality, saver trust since this will improve customer retention. The regression analysis results indicated that the explanatory power of the independent variables was 58.1% (AdjR Square=.581)

The researcher therefore recommends that the management of the Sacco's should promote better service quality since it's crucial in improving customer retention in Sacco's in Mbarara City. This can be achieved through improving facility appearance, opening hours, delivering as promised and being courteous to customers. The management and other stakeholders of Saccos should also promote by all means better saver trust by training workers on having major competences and be able to solve customer problems easily.

CHAPTER ONE

1.0 Introduction

This chapter presents the background of the study, the statement of the problem, the purpose of the study, the research objectives, research questions, significance of the study and the scope of the study.

1.1 Background of the study

Globally, retaining customers has been a recurring challenge due to the dynamics in today's business environment (Mohamed et al, 2022). According to the current business environment where financial institutions operate, complex and competitive climate exists. For instance, in most developed countries, globalization and the diversification of technology have greatly transformed the face of financial sector (Mohamed et al, 2022). A study conducted by Zikalala (2016) revealed that the key challenge facing Sacco's today is customer retention. Sacco's have continuously faced persistent flow of competitors from other financial institutions who are more than eager to grasp a share of the market revenue within and outside the industry. Sacco's just like any other financial institutions need to have a noble comprehension of their client's tastes and preferences so that suitable marketing approaches directed towards customer retention can be established.

Customer retention embodies repeated behavior and reflects relationship continuation. Customer retention is an essential part of customer relationship management and organizations must take this into account (Kiki and Ogutu, 2021). The longer a customer stays with an organization the more utility the customer generates to the organization (Langat, 2021). Forbes Magazine (2015), on "the future of customer retention marketing" elucidates that global business indicator shows

that businesses have not been giving much emphasis on customer retention but placed more emphasis on increasing sales. However, due to stiff competition and the dynamic changes in the external operating environment, businesses have now been bound to adopt strategies that are primarily intended at forming long term associations with customers. Mohamed et al. (2022) supports the above statement by explaining that financial institutions globally are implementing strategies that are primarily aimed at improving their market performance by retaining their customers.

Previous studies (Langat, 2021; Sagwa, 2016; Kumar, Scheer and Steenkamp, 2010), have revealed that service quality is a key determinant of customer retention, for instance Langat, (2021) established that service quality influences consumers' re-purchase intentions and that their purchase experiences are spread to others (word-of-mouth intentions). According to Sagwa (2016), one strategic focus that Sacco's can implement to endure the stiff competition in the financial market would be focusing on service quality to gain customer retention. Service delivery to the consumers is whereby the needs of clients are catered for through ensuring that the services are available and are professional, useful and of high quality. Kumar, Scheer and Steenkamp (2010) also indicate that delivering quality service is an important aspect of business as it tends to have a great impact on how customers are retained in businesses. Therefore, it can be argued that for organizations to accomplish a longer long-term business performance it must create a better-quality customer value.

More so, trust has been related to customer retention by many studies (Elsner and Schwardt, 2014; Ampudia and Palligkinis, 2018; Swaen and Chumpitaz (2014). Trust is the anticipation of the

parties in a contract with any business during service familiarity. It is also interrelated to the perils allied with supposing and acting on such outlooks by the present business (Gounaris, 2011). Swaen and Chumpitaz (2014) depicted that, there are three key facets of consumer trust and they entail perceived integrity benevolence. Therefore, developing consumer assurance and offering quality service results in the organization improving consumer confidence. In the end, this results to enhancement of the rate of customer retention.

1.2 Statement of the problem

Customer retention is key for any kind of business or organization given that businesses cannot exist and survive without customer. Companies expand profitability from existing customers by enhancing their one time purchase volume and enhancing the duration of customer with them (Katende, 2017). A study conducted by Zikalala (2016) revealed that the key challenge facing Sacco's today is customer retention. Sacco's try to retain their customers through favorable policies, use of digital marketing as part of their overall marketing strategy which enables the customers make online transactions and have put in place reliable communication systems. Some Sacco's have introduced mobile banking systems to make it easier for members to repay loans from wherever they may be without the need to visit the Sacco premises (Coretec Africa report 2020).

Despite the Sacco's efforts to retain customers, most of them still face high customer turnover (Uganda Bankers Association, 2020). Sacco's have continuously lost customers as evidenced in various districts of Uganda based on the MFPED Semi-Annual Budget Monitoring Report (2022), showing an increase in the number of clients not taking up loans for instance, Masaka from 43% to 35%, Lira/Gulu from 86% to 84% and Jinja from 54% to 45% in financial year 2020/2021 to

2021/2022 respectively. Considering Sacco's in Mbarara city, evidence indicates that Sacco's have a number of customers who are no longer taking up loans that is from 63% in financial year 2020/2021 to 59% in 2021/2022 MFPEd Semi-Annual Budget Monitoring Report (2022) and some have closed operations because of lack of savers, for instance King of Kings and Twekambe Sacco among others (Mbarara City Commercial Office Report, 2021). More so, many Sacco's mushrooming in Mbarara city are with mostly new savers and the number of repeated patronage is very insignificant, Katende, (2017) a situation which if left unchecked may lead to closure of many more Sacco's.

Existing literature associates customer retention with service quality (Langat, 2021; Sagwa 2016) and saver trust (Gounaris, 2011; Swaen and Chumpitaz (2014). However, most studies on customer retention have used only one of these variable at a time to explain it, with others concentrating in the manufacturing firms, telecommunication sector neglecting the Sacco's. Moreover, most of these studies have been carried out in developed countries than in developing countries like Uganda. This has left an empirical and knowledge gap and in an attempt to fill this gap, this study aims at explaining the relationship between Service Quality, Saver trust and Customer Retention in Sacco's in Mbarara city.

1.3 Purpose of the Study

The purpose of this study was to establish the relationship between Service Quality, Saver trust and Customer Retention in Sacco's in Mbarara city.

1.4 Objectives of the study

- i. To establish the relationship between service quality and customer retention in Sacco's in Mbarara city
- ii. To establish the relationship between saver trust and customer retention in Sacco's in Mbarara city
- iii. To establish a combined effect of service quality and saver trust on customer retention in Sacco's in Mbarara city

1.5 Research Questions

- i. What is the relationship between service quality and customer retention in Sacco's in Mbarara city?
- ii. What is the relationship between saver trust and customer retention in Sacco's in Mbarara city?
- iii. What is the combined effect of service quality and saver trust on customer retention in Sacco's in Mbarara city?

1.6 Scope of the study

1.6.1 Conceptual scope

The study was limited to Service Quality and Saver trust as the independent variables and Customer Retention as the dependent variable.

1.6.2 Geographical scope of the study

The study covered registered Sacco's in Mbarara city. This is because the number of Saccos coming up in Mbarara city is high compared to the other new cities and Sacco's in Mbarara city are losing customers to new Sacco's daily.

1.6.3 Time scope

The study was cross sectional in nature where data was collected at one point in time.

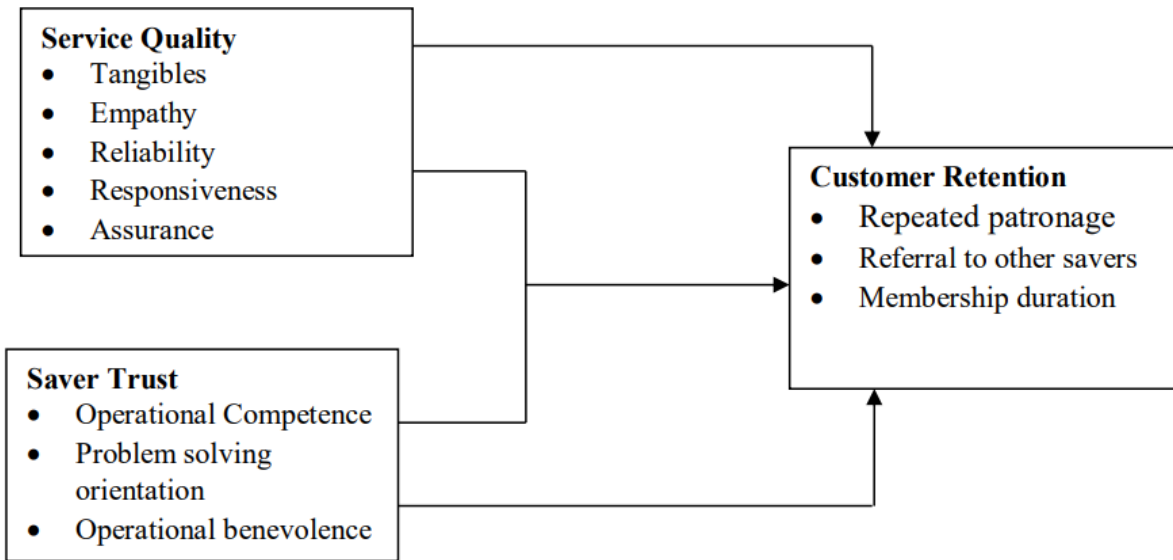
1.7 Significance of the study

Results of this study will provide new knowledge about the concepts of service quality, saver trust and customer retention in Sacco's.

The findings of this study will help managers to make necessary interventions to improve retention of customers in Sacco's.

The findings of this study could stimulate further research in this area and findings would be published to expand the existing body of knowledge on retention of customers in Sacco's.

1.8 Conceptual framework



Source: (*Parasuraman et al., 1988; Sirdeshmukh et al., (2002) and Fullerton et al., (2003)*)

Explanation of the conceptual framework

When Sacco's put in place strategies that guarantee quality services like tangibles, reliability, responsiveness, empathy and assurance, the customers behavior, emotions and love for the Sacco increases which in turn enables the customer repeat transactions and refer their family and friends to the Sacco.

Additionally, improved trust brought about by the skilled employees who possess problem solving and communication skills creates a positive attitude towards the Sacco's product and services. As a customer develops a positive attitude and affection towards Sacco products, the more they repeat patronage and refer other savers.

Lastly, when the Sacco improves on the quality of services and saver trust, it leads to repeated patronage, increases membership duration and referral of other savers to the Sacco.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the definition of key variables and literature on the relationships between service quality, saver trust and customer retention.

2.1 Definition of Key Concepts

2.1.1 Customer Retention

Gerpott, Rams and Schindler (2001) state customer retention as a coherence of the business relations between the client and organization. Customer retention is "the act of attempting to fulfill clients with the goal of growing long haul associations with them". Zineldin (2000) characterizes retention as a ceaseless responsibility to business with a specific organization in a predictable way. Day (1994), posits that we ought to recognize client needs fulfill the requirements and it will enhance customer retention. This will help the supplier to figure methodologies and arrangements. Customer retention in financial institutions is interpreted as meaning the length of client remain with a financial institution (Gerpott, Rams and Schindler, 2001). Effective customer retention begins with the initial introduction the association has and last through the whole association with the client. Retaining customers' decreases the cost of procuring new clients consequently enhances benefit (Reichheld & Kenny, 1990; Reichheld, 1996; Schmittlein, 1995).

2.1.2 Service Quality

Service quality can be seen as the extent to which a service meets customers' needs and expectation (Lewis, B. & Soureli, M., 2006). Service quality can thus be defined as the difference between customer expectations of service and perceived service. If expectations are greater than that of performance, then perceived quality is less than satisfactory and hence customer dissatisfaction

occurs (Parasuraman et al. 1985). Service quality according to Bitner et al (1994) is the consumer's overall impression of the relative inferiority or superiority of the organization and its services. From this definition, service quality is said to be a key to the survival of all servicing companies. Adding to this, Parasuraman, Zeithaml and Berry (2004), affirmed that service quality is a function of the differences between expectation and performance along the quality dimension. Customer expectations are beliefs about a service that serve as standards against which service performance is judged.

As customers become well educated, they demand new products, better and more reliable delivery, as well as more responsive services. Consequently, to improve competitiveness, firms have to understand customer needs and expectations (Parasuraman, 1991) and satisfy their customers by providing better products and service. Parasuraman et al. (1988) established a model based on dimensions of service quality that customers use to assess the service and these include:

Tangibles:

This quality service model stands for the physical representative of service provided by a firm. It is the visible structures and equipment of a firm. These include; equipment and facilities, employees' appearance; materials associated to the service (credit and debit sheets, cheque books e.t.c), decorations and business hours.

Reliability:

This dimension of service quality according to Parasuraman et al. is how the service provider is 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.

Responsiveness:

This dimension of service quality represents the ability, readiness and willingness of staff to provide prompt service to customers within the shortest possible time. Customers in general expect prompt responds to their request immediately, as they do not want to be kept waiting.

Assurance:

This aspect of service quality shows how knowledgeable employees are able to render quality service to customers. Thus, the ability of employees to instill confidence in customers, making them feels safe in their transactions, consistently courteous towards customers, the ability to answer customer questions appropriately. On this, customers more often than not look out for assurance from employees and expect that employees will behave confidently and instil confidence in their clients.

Empathy:

This shows how a firm's ability to render customer individual attention, deal with customers in a caring fashion, have the 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 providers' firm.

2.2.3 Saver Trust

Trust, the “cornerstone” in long-term relationships (Spekman, 1988, p. 79), is an essential factor shaping the customer-company relationship (Ba and Pavlou, 2002). Sirdeshmukh et al. (2002, p. 17) define it as “the expectations held by the consumer that the service provider is dependable and can be relied on to deliver on its promises. Emphasizing behavioral intent, Moorman, Zaltman, and Deshpande (1993), define trust as the willingness to rely on an exchange partner in whom one has confidence.” Other researchers use cognitive or evaluative definitions of trust, arguing that the

link between trust evaluations and behavioral response should be open to empirical investigation and likely subject to the influence of other contextual factors (Doney and Cannon 1997; Morgan and Hunt 1994). Adopting this approach, Morgan and Hunt (1994, p. 23) define trust “as existing when one party has confidence in the exchange partner’s reliability and integrity.” Therefore, we define consumer trust as the expectations held by the consumer that the service provider is dependable and can be relied on to deliver on its promises. Dimensions of trust Sirdeshmukh et al., 2002) include the following:

Operational competence.

The expectation of consistently competent performance from an exchange partner has been noted as a precursor to the development of trust in a variety of business relationship contexts. For example, Mayer, Davis, and Schoorman’s (1995, p. 717) conceptual model includes ability, or “that group of skills, competencies, and characteristics that enable a party to have influence within some specific domain,” as a key element of trustworthiness.

Operational benevolence

This is defined as behaviors that reflect an underlying motivation to place the consumer’s interest ahead of self-interest. Sako (1992, p. 39) refers to this dimension as “goodwill trust” and notes that, unlike competence trust, a benevolent partner “can be trusted to take initiatives [favoring the customer] while refraining from unfair advantage taking.” Benevolent behaviors provide diagnostic evidence of trust because by going beyond the terms of the explicit “contract,” the service provider indicates pro-consumer motivations, restraint on self-serving opportunism, and a willingness to assume fiduciary responsibility (Barber 1983; Ganesan and Hess 1997; Morgan and Hunt 1994). Consequently, benevolent behaviors and practices are often regarded as “extra-role” actions that are performed at a cost to the service provider with or without commensurate benefits.

Empirical findings generally corroborate the influence of operational benevolence in the development of trust (Hess 1995; Smith and Barclay 1997).

Problem-solving orientation

This is defined as the consumer's evaluation of employee and management motivations to anticipate and satisfactorily resolve problems that may arise during and after a service exchange. It is recognized that problems often arise during the course of service delivery (Bitner, Booms, and Tetreault 1990; Zeithaml and Bitner 1990) and/or in the post exchange phase (Smith, Bolton, and Wagner 1999; Tax, Brown, and Chandrashekar 1998) because of service heterogeneity (large variance in service delivery) and intangibility (quality can be reliably judged only after experience), and the manner in which service providers approach such problems are critical incidents that provide insight into the character of the service provider (Kelley and Davis 1994; Smith, Bolton, and Wagner 1999).

2.2 Relationship between study variables

2.2.1 Service Quality and Customer Retention

Mecha et al. (2015) opine that service to the customers is one of the certain methods to apply customer retention. They explain to understand the customers and their needs with outstanding service is what they require where customers feel it is worth of the continuous relationship. Therefore, when customers have full confidence on the firm, their purchase intentions will be surged (Wang, Hsu, and Chih, 2014). Lau et al. (2013) contends that banks are spending more time on service quality for the purpose of getting competitive advantage in term of increasing customer retention. Customers persistently purchase from firm due to the services provided and being assured for certain privileges. Providing quality service is not only for short term periods but for

future purchases as well. The competence of a firm to foresee the future needs of customers represents the service quality and this will enhance the satisfaction of customers and the retention rate of the firm (Khan and Fasih, 2014). Khan and Fasih (2014) specifically for the banking business, additional or premium service quality act as a crucial role for customers to assess the performance of the bank and it is a critical point of customer satisfaction and loyalty. Paul et al. (2016) also explains that if customers are satisfied with the service, it shows in their mental state, where customers make a comparison of their purchase expectation prior to the purchase with the actual perception on after the purchase process.

Furthermore, Osman, Mohamad, and Mohamad (2016) there are many past researches on banking industry such as Greece, India, China, Taiwan and Iran which indicate that service quality plays a great influence and one of the important roles that make customers repeat patronage with the bank. Despite that, research by Osman et al., (2016) state that tangible in service quality dimension has no significant impact on retention. As long as quality service provided exceeds customers' expectations, customers will be satisfied, and this led to the intention of repeat purchase. As such, Syaquirah and Faizurrahman (2014) the consequence on assessment of service quality can be proven when a firm providing excellent quality service can leads to customers' satisfaction and thereafter customer retention. This supported by Parasuraman et al. (1985) observations who documented that, the quality of service is judged low or high depending on the customer expectations(Zeithaml et al. (1990), Heskett et al. (1990) found that customer satisfaction is as a results of good service delivery. They revealed that, motivating employees to response quickly to a frustrated customer can turn the customer into a satisfied one, hence, ensure customer retention.

Additionally, the industry like financial institutions deliver same products, management differentiate themselves from competitors through service quality. This observation is relevant to know the extent to which competence of bank employees influences bank customer retention. Leeds (1992) in his study on “Mystery Shopping’ Offers Clues to Quality Service” acknowledged that, in businesses which have common or similar products will rely on quality”. Customers switch banks because of the poor service they receive, tellers being the prime consideration of one choosing a bank. A customer may choose to stay or leave the bank depending on the satisfaction. Wang and Wang (2006) undertook a study on how internet affects service quality in the banking sector. He found out that the use of internet is more convenient, saves time and easy to access. This observation is relevant to this study because, one of our specific objectives is to know how bank service influences bank customer retention. Quality service will boost the company’s image, enhance customer retention, attracting potential customers through word-of-mouth and in the long run increase the company profit (Osman and Sentosa, 2014). Service quality starts with relationship establishment before any delivering of business transaction. As mentioned by Al-Alak (2014) research, as the quality of relationship increases between the service provider and customers, it will have a significant influence on the customer’s behaviour in terms of continuity of the relationship and word-of-mouth promotion. Customer satisfaction has been treated as a critical factor on holding customers in a long-term duration in relationship marketing literature. Thus, in any service failure encountered by a customer, the most important step to undertake is to restore the customer’s satisfaction (Siu, Zhang and Yau, 2013).

Similarly, Hettiarachchy, and Samarasinghe (2016) who define customer retention as “the longevity of a client’s relationship with a product and/or service providing firm” argues that once

there is an establishment of relationship between bank and customers, banks' employees are able to market additional products with quality service to retain the customers. Service quality must be felt by customers the moment they step into the banks and business transactions need relationship to be continued. They retain their existing customers and prevent these customers from being attracted by competitors. Tan, Hamid, and Chew (2016) argue that firms that are able to provide quality service have the advantages in marketing activities since improved service quality lead to higher customer retention rates. Banks acknowledge that they must compete in a more efficient way through the satisfying service quality. Syaquirah, and Faizurrahman (2014) conducted a research on hotel's room service quality using three stars hotels in Malaysia. They concluded that service quality is important as delivering exceptional service will bring customers a higher satisfaction, which denote the element of customer retention.

2.2.2 Saver Trust and Customer Retention

Smith and Barclay (1997) who define role competence as the degree to which partners perceive each other as having the skills, abilities, and knowledge necessary for effective task performance thus satisfying and retaining customers. Sako (1992, p. 43) goes as far as to say that "competence trust is a prerequisite for the viability of any repeated transaction." Empirically, competence-related dimensions have been found to exert a strong influence on trust in diverse contexts. For selling alliances in the computer industry, Smith and Barclay (1997) find that perceptions of role competence have a significant effect on the partner's willingness to invest in the relationship. Low trust in the financial sector may undermine customer retention (Guiso, 2010). In the worst case, it may even lead to bank runs. Low trust may also damage the financial services industry. If the industry is not trusted, then consumers will choose to engage less, which, in turn, will damage both the industry and the economy, by reducing the availability of capital for productive purposes

(Jaffer et al., 2014). In addition, consumers may switch to non-financial suppliers of financial services such as technology companies and peer-to-peer markets.

Additionally, banks, Van Esterik-Plasmeijer and Van Raaij (2017) argue that “Trust facilitates long term transactions with customers. Customers do not have to worry about their personal interests being taken care of, their savings with the bank, and the financial products they have bought or plan to purchase from the bank, which include insurance policies and mortgages. With a high level of trust, customers feel confident that their interests are well served by the bank. To a certain degree, a high level of trust is a buffer against negative experiences which can arise amongst customers. Customers tend to “forgive” a negative experience and perceive it as an exception if they trust the bank. With a low level of trust, however, a negative experience may be perceived as a “proof” that the bank cannot be trusted.” Similarly, Van Esterik-Plasmeijer and Van Raaij (2017) find that the likelihood that people recommend their bank to a friend, relative or colleague depends on the trust they have in their bank.

Chang and Hung (2018) also find a significant positive impact of trust in banks on retention, which in their study captures consumers’ intentions to use services again and recommend these to family and friends. Tabrani et al. (2018) show that higher trust leads to stronger commitment and customer intimacy, two factors that matter for customer retention. With low trust, consumers may decide not to become customers of a financial institution. As pointed out by Ampudia and Palligkinis (2018), deposits from households constitute the main source of financing for euro area banks and in a high-competition environment, client attraction and retention are therefore of key importance for the success of banks’ business.

2.2.3 Service Quality, Saver trust and Customer Retention

Quality service sustains the customers' confidence and trust in service providers' delivery of the service, attract more and new customers, increase business with existing clients, reduce dissatisfied customers with fewer mistakes and increase customer satisfaction and retention (Berry et al., 1995; Lee et al. 2009). Thus improved service quality translates into favorable behavioral intentions, which in turn, leads to customer retention. Stronger trust goes along with stronger customer commitment and engagement thus retention. Carbó-Valverde et al. (2013) analyze trust in the solvency of commercial banks/savings banks in Spain and conclude that trust depends on customers' perceptions of performance characteristics and attributes of the quality of services. For example, trust positively depends on the perceived sensitivity of banks towards customers' problems and effectiveness in finding answers towards these problems.

Hansen (2012) finds that trust in Danish pension and mortgage companies is positively associated with the degree to which customers are satisfied about the relationship they have with the financial service provider thus customer retention. Additionally, Eisingerich and Bell (2007) in their study on the maintenance of customer relationships in high credence services, established that "customers' willingness to recommend the firm to relatives or friends" is the key component of customer commitment to the organization; also, "perceived excellence in quality of service and trust in the organization" will lead to repurchase intentions.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter includes the research design, study population, sample size and selection procedure, data collection and questionnaire design, operationalization and Measurement of Variables, validity test, reliability test, data processing and analysis procedures and ethical considerations.

3.1 Research Design

A research design is the overall blueprint or strategy for the research (Amin, 2005). This study adopted the cross-sectional design by which data was collected at a particular point in time. This design was selected because it is generally quick, easy, and cheap to conduct basing on a questionnaire survey and since the MBA program has a time limit. The cross-sectional design would permit obtaining of useful data in a relatively short period of time (Sedgwick, 2014).

3.2 The Study Population

The study population for this research study was 61 Sacco's registered and licensed in Mbarara city (Mbarara district commercial report, 2020).

3.3 Sample Size and Selection Procedure

Using the Krejcie and Morgan table (1970) table of sample size determination, a sample size of 52 SACCOs was selected for this study. The sample was selected using simple random sampling technique. Specifically a lottery method was employed whereby; a list of Sacco's was first obtained, followed by allocation of a unique number to each Sacco's and writing the numbers and names on individual pieces of paper and placing them in a box. The pieces of paper were then

picked one-by-one without replacement until a total of 52 Sacco's was achieved. Since Sacco's are the unit of analysis, they cannot answer questionnaires by themselves, customers were the unit of inquiry. Three (3) customers in each of the Sacco's were requested to fill the questionnaire, thus 156 copies of questionnaires were distributed. The customers would be reached randomly when they were in the queue seated waiting to be attended to by the Sacco staff.

3.4 Source of Data and Data Collection Instrument

The main source of data was primary, collected using self-administered questionnaires given to customers to answer them. The questionnaire was used to collect data consisting of four sections; Section A examined the demographic characteristics of the respondents, Section B captured information on service quality, Section C on saver trust and Section D on customer retention. The continuous variables were anchored on a 4 point likert scale which was selected because it makes it easy to report one number simply and directly without misleading the audience (Hopper, 2023). The questionnaire was developed in harmony with the guidelines specified by scholars such as Sekaran (2000). Each copy of the questionnaire was accompanied by a cover letter from Makerere University Business School authorizing the study.

3.5 Operationalization and Measurement of Variables

As explained in the conceptual framework, the independent variables; service quality was measured using; tangibles, reliability, responsiveness, assurance and empathy (Parasuraman et al, 1988) and saver trust was measured using operational competitiveness, problem solving orientation and operational benevolence (Sirdeshmukh et al. 2002). While the dependent variable that is customer retention, was measured using repeated patronage, referral to other savers and

membership duration (Fullerton et al.2003).These variables were measured using item scales developed by previous scholars drawn from existing literature and modifications were made where necessary to suit the study context. Thus, respondents were asked to indicate their perception of the variables on a four-point linkert scale with 1= strongly disagree, 2= disagree, 3= strongly agree, 4= agree.

3.6 Validity tests

Validity refers to whether an instrument measures what it was designed to measure, and it is one way of trying to ensure that the measurement error is kept to a minimum (Field, 2009). Content validity test was used to in this study to assess the degree to which individual items in the questionnaire represent the constructs being measured (Field, 2009). Experts, experienced researchers and academia were asked to rate the relevancy of items in the instrument as measures and dimensions of the various. The content validity index (CVI) for each variable was above the 0.7 recommended cut-off point (Field, 2009).

3.7 Reliability tests

Reliability is the ability of the measure to produce the same results under the same conditions (Field, 2009). This study adopted the commonly used and reliable measure of scale reliability, the Cronbach's alpha (α) to determine the internal consistency of the scales. According to Nunnally (1978) and De Vellis (2003), a cut-off alpha coefficient point of 0.7 is sufficient enough to prove that the item scales are consistent and dependable, it was also enough to conclude that the instrument was reliable.

Table 3.1: Validity and reliability results

Variable	Cronbach Alpha Coefficient (α)	Content Validity Index	Number of Items
Service Quality	0.751	0.876	26
Saver trust	0.702	0.853	9
Customer Retention	0.774	0.876	11

3.8 Data Processing analysis and presentation

Data collected from the field was tabulated, sorted, edited, classified and coded into a coding sheet. The cleaned data was summarized and converted into frequencies and percentages using the category system. The researcher then used Statistical Package for Social Scientists to (SPSS) version 26 to analyze the data collected. The data analyzed was presented using frequency distribution tables for easy interpretation. Pearson's Correlation Coefficient was run to establish the relationship between the study variables as per set objectives.

3.9 Ethical Considerations

To ensure privacy, the subjects were informed upfront that indeed their names were not required (Mugenda & Mugenda, 2003).

And to ensure confidentiality, the respondent were informed that the information they gave was solely used for academic purposes and data obtained on private matters was to be treated with utmost confidentiality (Amin, 2005).

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

In this chapter, the study provides two types of data analysis; namely descriptive analysis and inferential analysis. The descriptive analysis helps the researcher to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable. For the inferential analysis, the study used the Pearson correlation to measure the degree of association between variables under consideration and the regression analysis to estimate the contribution of service quality and saver trust on customer retention.

The researcher targeted to collect data from 156 Sacco savers but managed to collect data from 147 savers. This implies that the response rate was 94%.

4.1 Demographic Characteristics of the respondents

Respondents were asked to provide information regarding their demographic profile which included gender, age bracket, education qualification, marital status and how long they had been customers of the Sacco as follows:

Table 4.1: Demographic Characteristics of the respondents

Category	Item	Frequency	Percent
Gender	Male	60	40.8
	Female	87	59.2
Age bracket	18-20	5	3.4
	21-30	63	42.9
	31-40	50	34.0
	41-50	20	13.6
	50 and above	9	6.1
Education qualification	Primary	12	8.2

	Secondary	45	30.6
	Diploma	40	27.2
	Bachelors	43	29.3
	Masters	7	4.8
Marital status	Single	66	44.9
	Married	75	51.0
	Divorced	6	4.1
How long have you been a customer	Below 1 year	25	17.0
	2-5 years	82	55.8
	6-10 years	25	17.0
	10 years and above	15	10.2
	Total	147	100.0

Source: Primary data 2023

The results in table 4.1 indicate that the customer base is predominantly composed of females, accounting for 59.2% of the customers, while males make up 40.8%. This indicates a higher demand or preference among women for the Sacco's products or services. The implication here is that the Sacco's tailor its marketing efforts, messaging, and product development which better cater to the needs and preferences of female customers.

Regarding the age bracket, majority of customers fall within the 21-40 age range with the highest percentage (42.9%) followed by those in 31-40 age bracket with (34.0%). This suggests that the Sacco's products or services boom more with individuals in their prime working years. This implies that the Sacco aligns its marketing campaigns, product features, and customer engagement strategies to cater to the preferences, aspirations, and needs of this age group.

Additionally, educational qualifications of the customers vary with a relatively higher representation of those with secondary (30.6%), bachelor's degrees (29.3%) and the least being primary (8.2%) and Masters (4.8%). This suggests that the Sacco's offerings may be more

appealing to individuals with moderate education levels. The implication here is that the Sacco focuses on providing clear and informative communication to effectively engage and serve this customer segment. Moreover, the relatively lower representation of customers with primary education indicates there is no simple and accessible communication channels or materials of the messaging that is easily understood and relatable for this group.

Regarding marital status, data shows that on average the customer base comprises both married individuals (51.0%) and single individuals (44.9%), with a smaller proportion being divorced (4.1%). This suggests that the Sacco recognize the different needs and preferences of single and married individuals. This also implies that Sacco's tailor their marketing messages and product features to address the unique requirements of each group.

In relation to customer tenure, majority of customers have been with the company for 2-5 years (55.8%), indicating a relatively stable customer base and the least customer base (10 years and above) is with the longer tenure (10.2%). This could be attributed to maintenance of loyal customers with the exceptional service quality.

4.2 Correlation analysis

A correlation analysis was conducted to establish the association between the Independent variables (Service Quality and Saver trust) and the dependent variable (Customer Retention). The results that were run are presented in table 4.2.

Table 4.2: Correlation results

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Tangibility(1)	1													
Reliability(2)	.584**	1												
Responsiveness(3)	.591**	.508**	1											
Assurance(4)	.755**	.633**	.585**	1										
Empathy(5)	.704**	.673**	.672**	.515**	1									
Service Quality(6)	.513**	.662**	.514**	.508**	.578**	1								
Operational Competence(7)	.522**	.552**	.614**	.653**	.724**	.678**	1							
Problem-Solving Orientation(8)	.631**	.552**	.575**	.593**	.523**	.645**	.425**	1						
Operational Benevolence(9)	.658**	.635**	.642**	.663**	.628**	.420**	.466**	.649**	1					
Saver trust(10)	.624**	.693**	.728**	.758**	.741**	.413**	.730**	.474**	.500**	1				
Repeated patronage(11)	.636**	.409**	.562**	.656**	.661**	.613**	.505**	.640**	.682**	.732**	1			
Referral(12)	.551**	.562**	.567**	.704**	.698**	.681**	.426**	.572**	.620**	.650**	.762**	1		
Membership duration(13)	.228**	.183*	.292**	.324**	.314**	.299**	.268**	.244**	.285**	.317**	.184*	.339**	1	
Customer Retention(14)	.611**	.629**	.610**	.528**	.621**	.630**	.510**	.626**	.483**	.529**	.637**	.518**	.594**	1

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

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

Source: Primary data 2023

The results in Table 4.2 indicate that there is a positive significant relationship between service quality and customer retention in Sacco's in Mbarara city ($r = .630$, $p < .01$). This implies that any positive change in service quality will result in to a positive change in customer retention in Sacco's in Mbarara city. In other words, improvement in service quality dimension like tangibles, reliability, responsiveness, assurance and empathy will result in to improved referral, repeated patronage and membership duration in Sacco's in Mbarara city.

The results in Table 4.2 also indicate that there is a positive significant relationship between saver trust and customer retention in Sacco's in Mbarara city ($r = .529$, $p < .01$). This implies that any positive change in saver trust constructs like operational competence, benevolence and problem solving orientation will result in to a positive change in customer retention in Sacco's in Mbarara city.

4.3 Regression Analysis

Regression analysis was used to confirm the relationship between service quality, saver trust and customer retention. The results are indicated in the table 4.3 below:

Table 4.3: Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.706	.186		3.807	.000
	Service Quality	.402	.091	.407	4.427	.000
	Saver trust	.339	.078	.398	4.335	.000
R=.766, R Square=.587, AdjR Square=.581, F-Sat=102.393, Sig=.000						

a. Dependent Variable: Customer Retention

Source: Primary data, 2023

The results in table 4.3 above indicate that 58.1% (AdjR Square=.581) of the variations in customer retention is explained by service quality and saver trust. This means that the remaining 41.9% is explained by other variables not considered in this study.

In addition, the results show that a unit increase in service quality corresponds to a 0.407 unit increase in customer retention (Beta=.407, $P < .01$). Similarly, a unit increase in saver trust is associated with a 0.398 unit increase in customer retention. (Beta=.398, $P < .01$).

Furthermore, based on the beta values from regression table 4.3 above, the results indicate that service quality better explains customer retention with a Beta=.407 than saver trust which has a Beta=.398.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter discusses all the findings reported in chapter four based on the research questions and objectives, draws conclusions and suggests recommendations for the findings, limitations of the study and also proposes some areas for further research.

5.1 Discussion of Results

The discussions of results are based on the objectives and findings of the study as below;

5.1.1 Service quality and customer retention

The findings indicate a positive significant relationship between service quality and customer retention. The findings imply that when there is improvement in service quality dimensions such as tangibles, reliability, responsiveness, assurance and empathy this will result in improved customer retention among Sacco's in Mbarara city. In other words, improvement in tangibles in terms of equipment, facilities and employees' appearance improves customer retention.

The above findings coincide with the findings of Osman, Mohamad, and Mohamad (2016) who says that there are many past researches on banking industry such as Greece, India, China, Taiwan and Iran which indicate that service quality plays a great influence and one of the important roles that make customers repeat patronage with the bank and Al-Alak (2014) research, who argues that as the quality of services improves, it will have a significant influence on the customer's behaviour in terms of continuity of the relationship and word-of-mouth promotion. Tan, Hamid, and Chew (2016) argue that firms that are able to provide quality service have the advantages in marketing activities since improved service quality leads to higher customer retention rates.

5.1.2 Saver trust and Customer retention

The correlation and regression findings confirmed that saver trust has a positive significant relationship with customer retention. This means that improvements in saver trust indicators like operational competence, benevolence and problem solving orientation will result into improved customer retention.

The findings are in line with Van Esterik-Plasmeijer and Van Raaij (2017) who argue that “Trust facilitates long term transactions with customers. With a high level of trust, customers feel confident that their interests are well served by the company. To a certain degree, a high level of trust is a buffer against negative experiences which can arise amongst customers. They also found a likelihood that people’s recommendation of their bank to a friend, relative or colleague depends on the trust they have in their bank. Similarly, Chang and Hung (2018) also find a significant positive impact of trust on retention, which in their study captures consumers’ intentions to use services again and recommend these to family and friends. Tabrani et al. (2018) also revealed that higher trust leads to customer retention. Low trust in the financial sector may undermine customer retention (Guiso, 2010).

5.1.3 Service quality, saver trust and customer retention

The findings in Table 4.3 indicate that a combination of that 58.1% (AdjR Square=.581) of the variations in customer retention is explained by service quality and saver trust. This means that the remaining 41.9% is explained by other variables not considered in this study.

This in agreement with Lee et al., (2009), who argues that quality service sustains the customers’ confidence and trust in service providers’ delivery of the service, attract more new customers, increase business with existing clients, reduce dissatisfied customers with fewer mistakes and

increase customer satisfaction and retention (Berry et al., 1995). More so, improved service quality translates into favorable behavioral intentions, which in turn leads to customer retention. Stronger trust goes along with stronger customer commitment and engagement thus retention. In addition, Carbó-Valverde et al. (2013) analyze trust in the solvency of commercial banks/savings banks in Spain and conclude that trust depends on customers' perceptions of performance characteristics and attributes of the quality of services.

5.2 Conclusion

From the findings, it can be concluded that service quality was noted to be the most significant predictor of customer retention in Saccos in Mbarara city. These results were a confirmation of the correlation coefficient results and the regression analysis. This shows that once the Sacco management improves their facilities appearance, parking space, opening hours, provide service at promised time, provide prompt service to customers within the shortest possible time, courteousness towards customers, have the customers' best interest at heart and understand the needs of their customers this will increase the retention of the Sacco's customers in Mbarara city.

Saver trust as another variable that was noted to be having a significant positive relationship with customer retention among Sacco's in Mbarara city and the results were confirmed using correlation coefficient. These show that saver trust in terms of having competencies and characteristics that enable a party to have influence in Sacco's products and services, behaviors that reflect an underlying motivation to place the consumer's interest ahead of self-interest and consumer's evaluation of employee and management motivations to anticipate and satisfactorily resolve problems that may arise during and after a service exchange, all these will improve customer retention in Sacco's in Mbarara city.

Regardless of these findings all variables can be relied up on by owners and managers of Sacco's to predict customer retention because the regression model results revealed the overall model was significant, though much emphasis should be concentrated on service quality since it explains much of the variations in customer retention in Sacco's in Mbarara city compared to saver trust.

5.3 Recommendations

The management of the Sacco's should promote better service quality since it's the most vital in improving customer retention in Sacco's in Mbarara city. This can be achieved through improving their facility appearance, parking space, opening hours, provide service at promised time, provide prompt service to customers within the shortest possible time, courteousness towards customers, have the customers' best interest at heart and understand the needs of their customers.

The management and stakeholders should also improve saver trust by training their employees in order to improve their competencies that will enable them provide better services and to anticipate and satisfactorily resolve problems that may arise during and after a service exchange.

Management should also continuously improve on the quality of services offered to clients especially through technology update in order to gain trust from savers over a long period of time so that they can increase the membership duration and be able to come back and take up the Sacco's services.

5.4 Limitations of the study

The busy nature of the customers was a limitation to the study, as respondents didn't not want to waste time answering the questionnaire. The researcher however, tried to reach the customers

when they are in the queue waiting to be worked on to avoid wasting their time. Equally, the questionnaire was majorly closed ended and therefore less time consuming for them to fill.

Some respondents were not familiar with the English language in which the questionnaire was written. However, the researcher tried to first understand whether the respondent was familiar with the English language and if they were not, the researcher would interpret the questionnaire for the respondent and assist to fill for them.

By carrying out a cross-sectional study, some respondents were not to be able to answer questions involving past operations with perfect accuracy. However, the researcher attempted to ensure that accurate data is collected through prolonged engagement.

5.5 Areas of further research

The study adopted a cross sectional design where data is collected at one point in time and the findings from such studies are always limited to the current period only, hence future studies should look at a longitudinal research design where customer retention in Sacco's in Mbarara city are monitored for a long period of time.

The study was restricted to a quantitative approach using a structured questionnaire to elicit information from the respondents meaning that other features that can be observed were not included in the findings and thus future research should incorporate qualitative factors using for example observations and interview guide.

In this study, the variables service quality and saver trust contributed 58.1% towards customer retention in Sacco's in Mbarara city, further research should explore other determinants of customer retention and if possible variables that need to be combined with these variables in order to stimulate customer retention in Sacco's in Mbarara city.

The study covered only Mbarara city, therefore further studies on the same variables should be conducted across other cities in the entire country to obtain genuine conclusion about these concepts.

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Appendix1: Questionnaire

MAKERERE UNIVERSITY MAKERERE UNIVERSITY BUSINESS SCHOOL

Dear respondent,

I am a post graduate student, pursuing a Master's Degree in Business administration. I am undertaking a study on *“Service Quality, Saver trust and Customer Retention in SACCO's in Mbarara City”* as a partial fulfillment for the award. You have been identified as a resourceful person to this study. Please take a few minutes of your precious time to answer the following questions. Whatever response you give is purely for academic purposes and will be kept with utmost confidentiality.

SECTION A: Background Information

For each of the following questions, please tick what applies to you.

Bio data

A1. Please indicate your gender

(i) Male ☐ (ii) Female ☐

A2. Indicate your age bracket

(i) 10-20 ☐ (ii) 21-30 ☐ (iii) 31-40 ☐ (iv) 41-50 ☐ (v) above 50 ☐

A3. Select your highest level of education qualification

(1)Primary ☐ (2) Secondary ☐ (3) Diploma ☐

(4) Bachelors ☐ (5) Masters ☐ (6) PhD

A4. Indicate your marital status

(1) Single ☐ (2) Married ☐ (3) Divorced ☐

A5. How long have you been a customer in this Sacco?

(1) Less than 1year ☐ (2) 2-5years ☐ (3) 6-10years ☐ (4) more than 10years ☐

SECTION B:**Under the following section, please tick according to your level of agreement**

SA Strongly Agree

A Agree

D Disagree

SD Strongly Disagree

	Service Quality				
I	Tangibility	SD	D	A	SA
T1	The Sacco has up-to date facilities and equipment	1	2	3	4
T2	The physical appearance of the Sacco's office is visually appealing	1	2	3	4
T3	The office are very clean and well organized	1	2	3	4
T4	Employees are always smartly dressed in the Sacco uniform	1	2	3	4
T5	The Sacco parking is convenient	1	2	3	4
II	Reliability	SD	D	A	SA
R1	The Sacco location is near and accessible	1	2	3	4
R2	The opening and closing hours of the office are favorable	1	2	3	4
R3	When the Sacco promises to do something by a certain time, they do it	1	2	3	4
R4	Clients records are always clear and kept accurately	1	2	3	4
R5	The Sacco interest rates is always clear	1	2	3	4
R6	When the staff promises to perform certain services, they always provide them	1	2	3	4
III	Responsiveness	SD	D	A	SA
RS1	I receive prompt services from Sacco's when they need them	1	2	3	4
RS2	I receive prompt services for account opening.	1	2	3	4
RS3	Employees of the Sacco are always willing to help the customers	1	2	3	4
RS4	Employees at the Sacco always give me explanations to questions appropriately	1	2	3	4
RS5	I always get proper explanation about the procedure to follow to acquire a loan	1	2	3	4
IV	Assurance	SD	D	A	SA
ASS1	I believe in the employees and the services of the Sacco	1	2	3	4
ASS2	I'm always sure that the Sacco will get the required help	1	2	3	4
ASS3	I always believe the Sacco's charges in terms of interest rates	1	2	3	4
ASS4	I feel safe in my transactions with this Sacco	1	2	3	4
ASS5	I always feel satisfied with the knowledge of the employees at the Sacco	1	2	3	4

V	Empathy	SD	D	A	SA
EMP1	The Sacco has sound loyalty programs which recognize you as a frequent customer	1	2	3	4
EMP2	The Sacco has customer's best interest at heart	1	2	3	4
EMP3	The Sacco employees give individual attention to clients	1	2	3	4
EMP4	The Sacco makes efforts to understand specific customer needs	1	2	3	4
EMP5	The Sacco apologizes to clients for inconvenience caused to customers in case any arises	1	2	3	4

SECTION C:

Under the following section, please tick according to your level of agreement

SA Strongly Agree

A Agree

D Disagree

SD Strongly Disagree

	Saver trust	SD	D	A	SA
I	Operational Competence	1	2	3	4
OPC1	Sacco employees work quickly and efficiently	1	2	3	4
OPC2	Sacco employees can competently handle most of my requests	1	2	3	4
OPC3	Sacco employees can be relied upon in knowing what they are doing	1	2	3	4
II	Problem-Solving Orientation	SD	D	A	SA
PSO1	Sacco employees don't hesitate to take care of any problems i might have while acquiring the loan	1	2	3	4
PSO2	Sacco employees go out of their way to solve my problems	1	2	3	4
PSO3	Sacco employees are willing to bend company policies to help address my needs	1	2	3	4
III	Operational Benevolence	SD	D	A	SA
OBV1	Sacco employees value you as a customer	1	2	3	4
OBV2	Sacco employees can be relied upon to give honest advice even if you won't get a loan from them	1	2	3	4
OBV3	Sacco employees treat me with respect	1	2	3	4

SECTION D:

Under the following section, please tick according to your level of agreement

SA Strongly Agree

A Agree

D Disagree

SD Strongly Disagree

	Customer Retention	SD	D	A	SA
I	Repeated patronage	1	2	3	4
RPP1	I always get loans from this Sacco	1	2	3	4
RPP2	Even when am not in position to go to the Sacco, I always use M-Sacco	1	2	3	4
RPP3	It is rare that I consider getting a loan from another Sacco	1	2	3	4
RPP4	Every time I need a loan, I come to this Sacco	1	2	3	4
RPP5	When I need a loan, this Sacco is my first choice	1	2	3	4
II	Referral	SD	D	A	SA
RFR1	I would encourage my friends and relatives to get loans from this Sacco	1	2	3	4
RFR2	I would definitely recommend this Sacco to my friends and relatives	1	2	3	4
RFR3	I usually talk positively about this Sacco to other people	1	2	3	4
III	Membership duration	SD	D	A	SA
MSD1	I intend to use this Sacco's services for the foreseeable future	1	2	3	4
MSD2	I intend to increase the usage of the various services offered by this Sacco	1	2	3	4
MSD3	Given choices of services of other Sacco's, I will remain as a customer to this Sacco	1	2	3	4

Thank you for participating