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INFLUENCE OF GROUP LENDING STRATEGY ON CUSTOMER RETENTION IN MICROFINANCE BANKS IN NAIROBI COUNTY, KENYA

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ABSTRACT

The purpose of the study was to establish the influence of group lending strategy on customer retention in micro finance banks in Nairobi County, Kenya. The population for the study was drawn from the microfinance banks operating within Nairobi County and licensed by the Central Bank of Kenya. The target population was 79 comprising of top level managers, middle level managers and lower level managers drawn from the 13 MFBs in Nairobi county. The researcher used the questionnaires to collect primary data from the respondents as research tools. The data was analyzed with the help of SPSS. The findings indicated that there was a notable relationship between the independent variable and dependent variable with a strong positive a correlation coefficient of 0.788. Therefore, it was concluded that free will own selection, progressive lending, flexible social collateral and sequential lending greatly need to be enhanced to boost customer retention in the MFBS in Kenya. The study recommended that there is need to allow members to switch collateral savings from one member to another to minimize customer attrition. The study recommended that there is need for the compulsory savings for the members that determine allowable loan mounts to reduce customer attrition. The study recommended that members need to freely do peer screening before being allowed to borrow. The MFBs can be encouraged to carry out peer selection as a way of minimizing customer attrition and members of groups can carry out self-risk profiling in determining loan amounts and when to be disbursed to members. The MFBS should have adequate social structures which can encourage member unity. The study recommended that MFBs can carry out peer monitoring by grouping members into small borrowing pools to create a sense of competition in managing good repayment record that result in reduced attrition. The MFBS should have a credit policy to cover security requirement for group members provided that other loan requirements are fully satisfied. There is need to have adequate acquisition of relevant information; social sanction and peer pressure in case on loan default to reduce customer churn.

Key Words: *Free-Will Own Selection, Flexible Progressive Lending Strategy, Flexible Social Collateral Strategy, Sequential Lending Strategy, Customer Retention*

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INTRODUCTION

Organizations worldwide have various ways of enhancing their customer retention although the ways vary from one organization to another depending on the actual functions of each organization (Gopaal, 2007). Banking services in all markets, including emerging markets, are undergoing major transformation that is driven by change, deregulation and customer sophistication. Customer retention in particular is crucial to attaining a sustainable competitive advantage in the market place. This is done in a bid to improve customer satisfaction with the organizations.

Worldwide, the microfinance sub-sector has had to contend with numerous challenges. One of the major challenges faced, especially by personal loan programs of MFBs, is that borrowers are highly risky since they are typically low net-worth individuals with little or no collateral that can be acquired by the MFI in the event of default. A popular remedy to this problem involves requiring borrowers to apply for credit in voluntarily formed groups: since such borrowers know each other, safe borrowers will likely form their own groups, avoiding those with higher risk profiles – this mitigates the adverse selection problem (Armendariz&Morduch, 2007). Adverse selection arises when there information asymmetry between a loan applicant and a loan provider leading to a risky lending situation (Chisasa, 2014).

Across Africa and specifically in South Africa, the need to service customers has changed drastically over the last 20 years. Berry (2015), reports that the needs of most banks have shifted from attracting new customers as the main marketing tool to retaining them as well. According to Consultative Group to Assist the Poor, CGAP (2011), conventional banks have only reached a quarter of the borrowers in Sub-Saharan Africa.

In Kenyan perspective, Njane (2013) indicates that the banking industry is highly competitive, with banks not only competing among each other; but also with non-banks and other financial institutions. Most bank product developments are easy to duplicate and when banks provide nearly identical services, they can only distinguish themselves on the basis of service, price and quality. Therefore, customer retention is potentially an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment.

From the years 1970s to date there has been high increase and growth of MFBs in Kenya. Many have grown fast and their levels of efficiency greatly increased until some have been converted into commercial banks in Kenya for example the Equity Bank, Sidian Bank and the Family Bank. There being a huge gap between commercial banks and Microfinance Banks, the government of Kenya enacted a microfinance act (2006) aimed at having microfinance banks that are deposit taking, regulated and supervised by the Central bank of Kenya.

Statement of the Problem

Empirical evidence supports existence of a relationship between group lending strategy and customer retention (Gine&Kaelan, 2010; Becchettia&Conzo, 2013; Chowdhury et al., 2014; Ibtissem, &Bouri, 2013; Zeija, 2013). Gains made through provision of services through group lending has seen BRAC microfinance offer services to over 200,000 and open over 150 branches in Uganda within 13 years. Analysis from CBK-Kenya on MFB financial report 2017, profitable MFBs have emphasis on group lending strategies as their core line. These MFBs have a good customer base, are able to attract credit, their liquidity margins are within regulatory requirements and have a low default levels. The success of One Acre Fund is attributed to group lending strategies through provision of basic financial services through farm inputs.

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The current MFBs are driven by quick profits since the funders are demanding a fast return on their investments. These demands are pushing them into ignoring slow and gradual growth in group lending, targeting high-end SMEs, who have collaterals and can pay a high premium on borrowed finds. They lack necessary skills on managing defaults ending up losing high volume key clients. Out of the 13 MFBs operating in Kenya, only two are profit making (CBK, 2017). These MFBs have a high emphasis on group lending strategies as their core business. Failure to embrace group lending strategies by MFBs has pushed them into commercial banks subsector which is not only competitive, but also requires costly and time consuming collateral management. There is little literature that links group lending strategy and customer retention in the context of Sub-Saharan Africa.

The need to bridge the gap is overwhelming especially with many emerging questions as of whether is microcredit working of living to its core mandate. MFBs are silenced to Bank the unbanked in bridging the poverty levels. Success recorded through implementation of group lending strategies in Grameen and BRAC can be replicated .Taking an example of Brac in Uganda, benefits of retaining clients through group lending has benefits ranging from profitability that has enabled an exponential growth, to social impact, reaching over 200,000 members. Only a limited number of studies have so far examined the impact of group lending strategy on customer retention in the context of Sub-Saharan Africa. (Tumwine, Mbabazi, &Shukla, 2015;Tumwine et al., 2015).This shows that limited attention has been paid on the group lending strategies as drivers of customer retention model. This study sought to address this gap by undertaking an empirical study on the relationship between group lending strategies and customer retention in the microfinance banks in Nairobi County, Kenya.

Objectives of the Study

The purpose of the study was to establish the influence of group lending strategy on customer retention in micro finance banks in Nairobi County, Kenya. The specific objectives were:-

- To establish the influence of free-will own selection as a strategic decision on customer retention in microfinance banks in Nairobi County, Kenya
- To establish the effect of flexible social collateral strategy on customer retention in microfinance banks in Nairobi County, Kenya
- To find out the influence of progressive lending strategy on customer retention in microfinance banks in Nairobi County, Kenya
- To examine the impact of sequential lending as a strategy on customer retention in microfinance banks in Nairobi County, Kenya

Research Hypothesis

- There is no significant relationship between free-will own selection and customer retention in microfinance banks in Nairobi County, Kenya
- There is no significant relationship between flexible social collateral strategy and customer retention in microfinance banks in Nairobi County, Kenya
- There is no significant relationship between progressive lending strategy and customer retention in microfinance banks in Nairobi County, Kenya
- There is no significant relationship between sequential lending strategy and customer retention in microfinance banks in Nairobi County, Kenya

LITERATURE REVIEW

Theoretical review

Strategic Fit Theory

This theory, also known as best fit strategic management or strategic decision theory, explains that there are no universal prescriptions of strategic

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management practices. This concept is based on the contingency perspective, championed by Chandler (1962) and Ansoff (1965). Wright and Snell (2005) argue that the application of strategic management practices depends on the microfinance institution context, business strategy and culture.

The theoretical framework postulates that congruence between strategy and organization's contingencies lead to enhanced performance(Zajak, Kraatz&Bresser, 2000). The proponents of this theory observe that group lending strategy would be more effective only once they are rightfully integrated with specific microfinance institution and environmental understanding. Strategic fit theory elaborates the significance of making sure that group lending strategy practices are right to the circumstances of the microfinance institution such as culture, external environment and operational processes. The strategic management practices must consider the specific requirements of both the microfinance institution and its stakeholders. Customers are now more sophisticated and therefore microfinance institutions should seek emotional issues in decision making and be partner who offer superior value through brand, processes, design or other elements relevant to customers.

Resource Dependence Theory

Also known as resource based view theory, According to of Penrose (1959); she conceptualized the firm as being a collection of productive resources the disposal of which between different uses and over time is determined by administrative decisions. The theory seeks to exploit a firm's superior resources in order to gain sustainable competitive advantage that affords the accrual of superior performance (Wernerfelt, 1984).The theory seeks to explain a firm's sustainable competitive advantage and performance as proceeding from the possession and subsequent deployment of resources that are valuable, rare, inimitable and non-substitutable. The resources are being deployed in a highly competitive financial market, with high level of supervision and customer advocacy.

These resources comprise of the tangible and intangible, the hardware and the software. The deployment of these resources determines the performance. Intangible resources are path-dependence and non-tradable in nature of most intangible resources (Helfat and Peteraf, 2003), firms cannot easily replicate other firms' intangible resources. Non-replicability of intangible resources allows for heterogeneity of resources among firms to persist over a long time (Barney, 1991).Nyaga, (2014) identifies three distinct loan market segments providers compete.

Consumer Culture Theory

Group members are members of a specific social group. According to this theory, consumption choices and behavior are from a social and cultural point of view and not economic and psychological one. It assumes that group members, consumers, create this culture in which it creates one's own identity within the culture (Arnoud& Thompson 2005). This process of creating culture, building value and identity, members share the experience within the culture and pull more into the consumption pull. These members are joined within the culture and can stay as long as the culture is maintained. Therefore, the act of consumption creates culture that eventually creates commitment. It is this commitment to group that translates to group customer retention. Common consumption enhances group social ties.

Social Capital theory

This theory was first introduced by (Bourdieu, 1977). He defines social capital as those resources inherent in social relations which facilitate collective action (Bourdieu, 1977). Social capital resources include trust, norms, and networks of association representing any group which gathers consistently for a common purpose. (Bourdieu & Wacquant, 1992) defines social capital as the sum of

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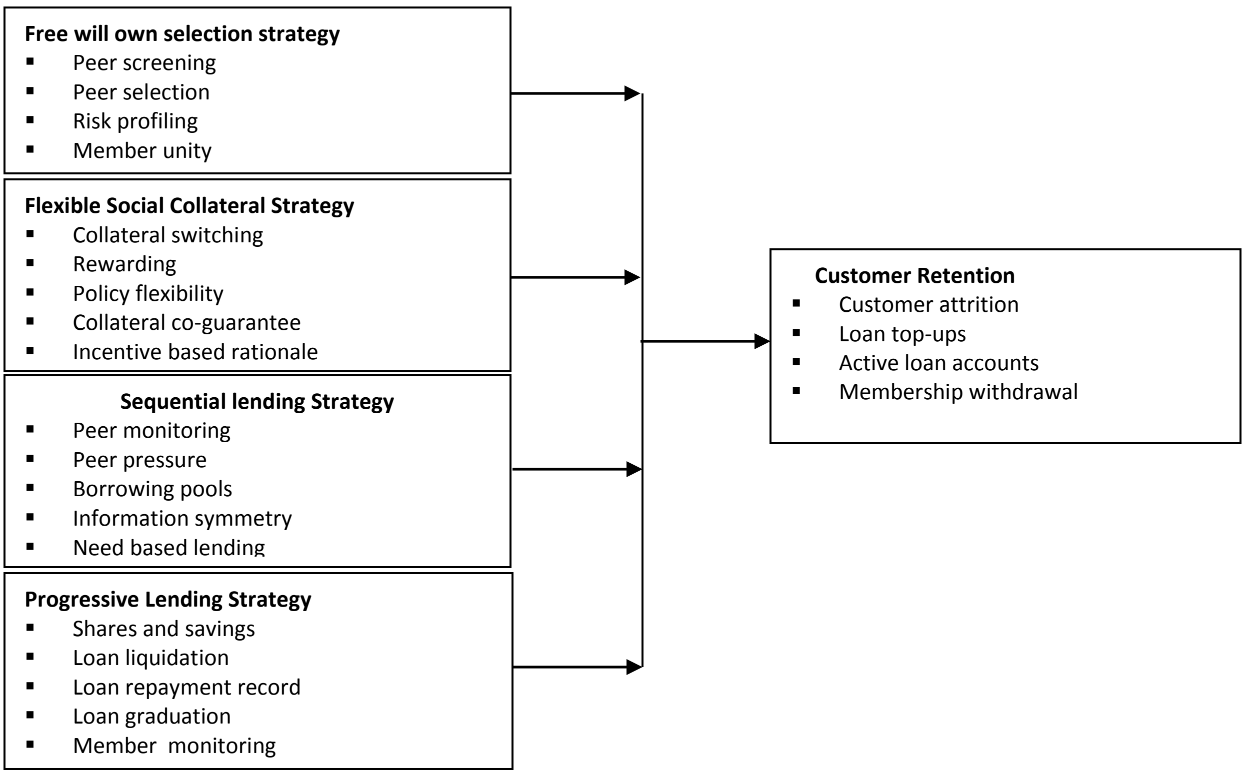
the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition. Social capital may be summarized as social relationships between people that enable productive outcomes (Szreter, 2000).

Conceptual Framework



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

Source: Author (2019)

Empirical Literature Review

Free will own selection strategy

According to Varian (1989) when group members selected each other to belong to a borrowing group voluntarily, they considered their common characteristics including having a good loan repayment record. Peer screening and the subsequent peer selection processes are necessary steps in self-forming groups (Aggarwal, Goodell, & Selleck, 2015; de Quidt et al., 2016; Gan et al., 2013; Jaffrey& Ahmad, 2013). In peer screening and peer selection, prospective group members choose each other voluntarily based on the knowledge of each other for an agreed purpose (Gan et al., 2013).

Individuals outside the group may not know all the information about a particular person in the group because of information asymmetry conditions that prevent members of one group from knowing everything about members of another group. Members of a group have the privilege of knowing everything about other members in the group (Aggarwal et al., 2015; Nwachukwu, 2013).

Flexible social collateral Strategy

Conventional borrowing requires that clients pledge collateral as fall back in event of loan default. It is the lack of collateral that same times lead to exclusion of loans to the poor (Ndege, 2017). They however own intangible assets like the sense of belonging to the same community and the reciprocal solidarity Kumar (2012). Taping into this asset is a strategic decision that financial institutions should harness for customer growth, development and retention.

Progressive Lending Strategy

Despite lack of collateral to secure loans in group lending, there is an appreciation of lending without collateral as the backbone of group lending in poor markets. This may help microfinance bank leaders to formulate appropriate strategies to reduce loan default while maintaining lending without collateral. Microfinance leaders need to make the best use of this strategy by, among other strategies; developing approaches that provide incremental benefits to good borrower groups according to loan cycles. This strategy is defined by Hulme and Mosley, (1996), progressive lending, as a practice of increasing the credit limit of borrowers by a proportion depending on their previous repayment record.

Sequential Lending Strategy

Sequential lending takes advantage of social sanctions that members enjoy. Efficiency is improved when the two scenarios are applied. In a scenario, if one member defaults when the second on has not been allowed to borrow, this will attract social sanctions since the default adversely affect the borrowing of the second member. By the time the second member is allowed, a substantial amount is already repaid by the first member. Use of social sanction applies to all members (Chowdhury, Chowdhury & Sengupta, 2014).

Customer Retention

Institutions are to have customer retention strategies which should be progressive, taking care of the fast changing customer demands due to the changing business environment and technology. Customer retention is related to customer satisfaction, it is a tactically driven approach based on customer behavior and a core activity going on behind the scenes in relationship to marketing, loyalty marketing and so forth (Kirungi, 2011).

METHODOLOGY

The study used survey designed to establish influence of group lending strategy on customer retention in microfinance banks in Kenya. The target population in this study was the 79 comprising of top level managers(CEOs and Managing directors), Middle level Managers (Credit Manager, Heads of credit, Operation Manager, Branch Managers, Lending Managers) and lower level Managers (credit analysts, credit Administrators, Senior credit officers). Different MFBs had different management titles for the management level. The researcher collected data from Top level Managers, Middle level Managers and Lower level Managers in microfinance banks in Nairobi. The study used questionnaires to collect primary data from the respondents. The study collected both qualitative and quantitative data and was analyze using both quantitative and qualitative methods with the help of (SPSS) version 21. The Multiple Regression model that aided the analysis of the variable relationships was as follows:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon,}$$

Where; Y= Customer retention in MFBs (dependent variable);

β_0= constant (coefficient of intercept);

X_1= Free Will Own-selection strategy (independent variable);

X_2= Progressive lending strategy (independent variable);

X_3= Flexible Lending strategy (independent variable);

X_4= Sequential Lending Strategy (independent variable);

ε = Error term; β1…β_4= regression coefficient of four variables.

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FINDINGS

Free Will Own Selection Strategy

The study sought to assess the extent to which free will own selection strategy affected customer retention in microfinance Banks in Nairobi County, Kenya. According to results, 5% of the respondents indicated to no extent free will own selection strategy affected customer retention, 35% stated little extent, 25% indicated to a moderate extent, 20% posited to a great extent and 15% of the respondents indicated to a very great extent. The study findings implied that free will own selection strategy affected customer retention in microfinance Banks in Nairobi, Kenya.

The study sought to assess the influence of free will own selection strategy on customer retention in Kenya. The study findings were analyzed as presented in a Likert scale with statements categorized as (where 1 = strongly disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5= Strongly Agree). The study findings were presented with the scores of ‘strongly disagree’ and ‘disagree’ represented a statement disagreed on a mean score of 1 to 2.4. The score of ‘Neutral’ was represented by a mean score of 2.5 to 3.4. The score of ‘agree’ and ‘strongly agree’ were represented by agreed by a mean score of 3.5 to 5.0.

According to the study results tabulated, a majority of respondents were found to be neutral that the organization had ensured members freely did peer-screening before being allowed to borrow (2.487). The organization encouraged peer selection as a way of minimizing customer attrition (2.453); Members of groups do self-risk profiling in determining loan amounts and when to be disbursed to members (2.543); the members could pledge personal collateral to cover specific group members’ loans in addition to member’s savings (2.215); the organization had social structures that encourage member unity (2.876). The study results showed that free will own selection strategy affected customer retention in microfinance Banks in Kenya.

The study findings were in agreement with the findings by (Aggarwal, Goodell, &Selleck, 2015; de Quidt et al., 2016; Gan et al., 2013; Jaffrey& Ahmad, 2013). Peer screening and the subsequent peer selection processes are necessary steps in self-forming groups. In peer screening and peer selection, prospective group members choose each other voluntarily based on the knowledge of each other for an agreed purpose (Gan et al., 2013). Individuals outside the group may not know all the information about a particular person in the group because of information asymmetry conditions that prevent members of one group from knowing everything about members of another group. Members of a group have the privilege of knowing everything about other members in the group (Aggarwal et al., 2015; Nwachukwu, 2013). Gan et al. (2013) found that when people know each other (peers), they can choose only those members they know would be trustworthy for loan repayment. Presbitero and Rabellotti (2014) found that microcredit was a potent tool to foster the build-up of trust and to reduce informational asymmetries between lenders and borrowers. In that regard, peer selection prevents adverse selection.

Flexible Social Collateral Strategy

The study sought to assess the extent to which flexible collateral strategy affected customer retention in microfinance banks in Nairobi County, Kenya. 12% of the respondents indicated to no extent did progressive lending strategy affected customer retention, 15% stated little extent, 30% indicated to a moderate extent, 25% posited to a great extent and 18% of the respondents indicated to a very great extent. The study findings implied that flexible collateral strategy affected customer retention in micro finance institutions in Nairobi, Kenya.

The study sought to assess the influence of flexible social collateral strategy on customer retention in micro finance institutions in Kenya. The study findings were analyzed as presented in a Likert scale with

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statements categorized as (where 1 = strongly disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5= Strongly Agree). The study findings were presented with the scores of ‘strongly disagree’ and ‘disagree’ represented a statement disagreed on a mean score of 1 to 2.4. The score of ‘Neutral’ was represented by a mean score of 2.5 to 3.4. The score of ‘agree’ and ‘strongly agree’ were represented by agreed by a mean score of 3.5 to 5.0.

According to the study results findings as tabulated, a majority of respondents were found to be neutral that the organization allowed members to switch collateral savings from one member to another to minimize customer attrition (2.487); the social collateral was emphasized as a reward for good loan repayments for repeat borrowings(2.982); the organization can bend credit policy to cover security requirement for group members provided that other loan requirements are fully satisfied.(3.214); A member can pledge personal collateral to cover specific group members’ loans in addition to member’s savings (3.332); A member could pledge personal collateral to cover specific group members’ loans in addition to member’s savings (4.234). This implied that flexible social collateral strategy affected customer retention in the microfinance Banks in Kenya.

The study results showed that flexible social collateral strategy affected customer retention in microfinance Banks in Kenya. In a study, Baklouti (2013) found that MFI operators achieved good repayment records from low income borrowers without requiring collateral because the joint liability principle reduced information asymmetries and fostered trust among the borrowers. Microfinance group is a social design in which people participate by making themselves socially and economically accountable to each other (Kumar, 2012). He also assets that group-based lending mitigates the problem of adverse selection that in turn reduces the problem of credit rationing, bringing the safe borrowers back to the credit market.

Progressive Lending Strategy

The study sought to assess the extent to which progressive lending strategy affected customer retention in micro finance institutions in Nairobi County, Kenya. 12% of the respondents indicated to no extent did progressive lending strategy affected customer retention, 15% stated little extent, 30% indicated to a moderate extent, 25% posited to a great extent and 18% of the respondents indicated to a very great extent. The study findings implied that progressive strategy affected customer retention in micro finance institutions in Nairobi, Kenya.

The study sought to assess the influence of progressive lending strategy on customer retention in Kenya. The study findings were analyzed as presented in a Likert scale with statements categorized as (where 1 = strongly disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5= Strongly Agree). The study findings were presented with the scores of ‘strongly disagree’ and ‘disagree’ represented a statement disagreed on a mean score of 1to 2.4. The score of ‘Neutral’ was represented by a mean score of 2.5 to 3.4. The score of ‘agree’ and ‘strongly agree’ were represented by agreed by a mean score of 3.5 to 5.0.

According to the study results tabulated, a majority of respondents were found to be neutral that there was always compulsory savings for the members that determine allowable loan mounts to reduce customer attrition(3.678); The shares are used to liquidate a member loan to reduce attrition rate(3.876); Pegging loan graduation on previous loan repayment record had encouraged members to stay as members since it cultivated a sense of hope (3.246); the high level of monitoring among members to determine need for loan graduation has reduced member attrition (3.123). The study findings implied that progressive lending strategy affected customer retention in financial institutions in Kenya.

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The study results showed that progressive lending strategy affected customer retention in micro finance institutions in Kenya. Ibtissem and Bouri (2013) found that the application of the collective punishment principle was more useful when used to reduce loan default than to simply punish group members because some of the members defaulted on loan repayment. Chowdhury et al. (2014) corroborated the Ibtissem and Bouri finding and added that some lenders used the collective sanctions principle strategically by rewarding the groups that made timely loan repayments with reduced interest rates and increased interest rates for those groups that did not make timely repayments. Ibtissem and Bouri argued that by varying the interest rates for the good and the bad performing groups, the lender motivates the bad performing groups to reduce loan default, without expressly denying further loans to poor performing groups.

Sequential Lending Strategy

The study sought to assess the extent to which sequential lending strategy affected customer retention in micro finance institutions in Nairobi County, Kenya. 9% of the respondents indicated to no extent sequential lending strategy affected customer retention, 12% stated little extent, 43% indicated to a moderate extent, 23% posited to a great extent and 13% of the respondents indicated to a very great extent. The study findings implied that sequential lending strategy affected customer retention in micro finance institutions in Nairobi, Kenya.

The study sought to assess the influence of sequential lending strategy on customer retention in Kenya. The study findings were analyzed as presented in a Likert scale with statements categorized as (where 1 = strongly disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5= Strongly Agree). The study findings were presented with the scores of 'strongly disagree' and 'disagree' represented a statement disagreed on a mean score of 1 to 2.4. The score of 'Neutral' was represented by a mean score of 2.5 to 3.4. The score of 'agree' and 'strongly agree' were represented by agreed by a mean score of 3.5 to 5.0.

According to the study results, a majority of respondents were found to be neutral that use of peer monitoring of members who had loans by those waiting for loans had encouraged retention (3.245). The grouping members into small borrowing pools created a sense of completion in managing good repayment record that resulted in reduced attrition (3.786); the organizations could bend credit policy to cover security requirement for group members provided that other loan requirements are fully satisfied. (3.887); There was adequate acquisition of relevant information; social sanction and peer pressure in case on loan default to reduce customer churn (4.234).There was sufficient information sharing among members that inform lending decision to reduce delaying needy customers who would easily defect(4.123). The study results show that sequential lending strategy affected customer retention in micro finance institutions in Kenya.

Customer Retention

The study determined customer retention in the MFI in terms of level of customer attrition, requests for loan top ups, active loan account and percentage of shares are clients withdrawing. The data was collected from the different indicators of the variable customer retention which was ordinal categorical. The data was therefore presented in frequency tables with the mode being used as the appropriate measure of central tendency. The first indicator for the dependent variable required to know what the organization level of customer attrition, 60% of the respondents had indicated 0-9%, 5% indicated 10-19%, 10% indicated 20-39%, 20% indicated stated 40-49%, 5% stated over 50%. The modal class is of the respondents who had 0%-9% level of attrition in the organization. The median was found to be 1 which implies that on average the level of losing customers in the organization for the last one year was between 0%-9%.

The study also went further to establish the rate of requests for loan top-ups in the MFB, 58% of the respondents indicated 0-9%, 4% posited 10-19%, 12% indicated 20-39%, 18% stated 40-49%, 8% indicated over 50%. The modal class is of the respondents who had0%-9% rate of requests for loan top-ups in the MFB. The modal class was found to be 1 which implies that on average the rate of requests for loan top-ups in the MFBs for the last one year was between 0%-9%.

Further, the study also established the extent of active loan accounts was, 64% of the respondents indicated 0-9%, 10% stated 10-19%, 8% indicated 20-39%, 10% stated 40-49%, 18% indicated over 50%. The modal class is of the respondents' stated 0%-9% extent of active loan accounts. The modal class was found to be 1 which implied that on average active loan accounts for the last one year was between 0%-9%.

Finally, the study also sought to examine the percentage of shares are clients withdrawing According to the study results 62% of the respondents indicated 0-9%, 20% stated 10-19%, 12% indicated 20-39%, 3% stated 40-49%, 3% indicated over 50%. The modal class is of the respondents' stated 0%-9% percentage of shares are clients withdrawing.

Multiple Regression Analysis

In order to establish the relationship between the independent variables (Free Will Own Selection Strategy, Flexible social collateral strategy, Progressive lending strategy and Sequential lending strategy) and dependent variable (customer retention), the study adopted multiple regression analysis. According to results, it was notable that the independent variables and dependent variable had a strong positive a correlation coefficient of 0.788. The R squared which is the coefficient of determination was 0.620. This indicated that the four independent variables jointly 62.00% variation in the customer retention in the organization. The remaining 38.00% could be accounted by other variables which the study recommends for further research. Therefore, it was concluded that Free Will Own Selection Strategy, Flexible social collateral strategy, Progressive lending strategy and Sequential lending strategy greatly need to be enhanced to boost customer retention in the MFBs in Kenya.

Further, the study adopted Analysis of Variance (ANOVA) to establish whether truly the independent variables (Free Will Own Selection Strategy, Flexible social collateral strategy, Progressive lending strategy and Sequential lending strategy) had a significant relationship with the customer retention. According to the F-Test, the study established that F-calculated (21.209) was greater than the F-Table value (13.456). Therefore it was conclude that Free Will Own Selection Strategy, Flexible social collateral strategy, Progressive lending strategy and Sequential lending strategy included in the model jointly influence customer retention. Thus the Free Will Own Selection Strategy, Flexible social collateral strategy, Progressive lending strategy and Sequential lending strategy play a significant role in the customer retention in the MFBs in Kenya.

The regression coefficients showed that independent variables against the customer retention in the MFBs. As per the SPSS generated, the regression model was; Whereby Y = Customer Retention, X_1= Free will own selection strategy, X_2= Flexible social collateral strategy, X_3= Progressive lending strategy and X_4= Sequential lending. B_0=Constant term while β_1, β_2, β_3 and β_4 are coefficients of determination and finally ε represented the Error term (standard error). This became:

$Y= 4.974+ 0.835X_1+ 0.794X_2+ 0.787X_3 + 0.714X_4$.

It was established that free will own selection (X_1) had a coefficient of 0.835with t statistic value of 5.765>1.96 which had a p-value of 0.000<0.05. This implies that the free will own selection (X_1) is

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significant at 0.05 significance level. This inferred that free will selection (X_1) had a significant positive influence on customer retention in the MFBs in Kenya.

The study found out that flexible social collateral strategy (X_2) had a coefficient of 0.794 with t statistic value of 5.090>1.96 which has a p-value of 0.002<0.05. This implied that the progressive lending strategy (X_2) was significant at 0.05 level of significance. It was concluded that flexible social collateral strategy (X_2) had a significant positive influence on customer retention in the MFBs in Kenya.

The results further showed that progressive lending strategy (X_3) had a coefficient of 0.787with t statistic value of 4.987>1.96 which had a p-value of 0.0004<0.05. This implied that the progressive lending strategy(X_3) was significant at 0.05 significance level. It was concluded that progressive lending strategy (X_3) had a significant positive influence on customer retention in the MFBs in Kenya.

The Sequential lending Strategy(X_4) had a coefficient of 0.714with t statistic value of 4.326>1.96 which had a p-value of 0.005<0.05. This implied that the sequential lending strategy (X_4) was significant at 0.05 level of significance. It was concluded that sequential lending strategy(X_4) had a significant positive influence on customer retention in the MFBs in Kenya.

CONCLUSIONS

The study concluded that free will own selection strategy influence customer retention in MFBs in Kenya. The regression coefficients of the study show that free will own selection strategy had a significant positive influence on customer retention in MFBs in Kenya. This implied that increasing levels of free will own selection strategy would increase the levels of customer retention in MFBs in Kenya. This directs that free will own selection strategy had positive influence on performance customer retention in MFBs in Kenya.

The study concluded that progressive lending strategy influence customer retention in MFBs in Kenya. The regression coefficients of the study show that progressive lending strategy had a significant positive influence on customer retention in MFBs in Kenya. This means that increasing levels of progressive lending would increase the levels of customer retention in MFBs in Kenya. This shows that progressive lending strategy had a strong positive influence on performance customer retention in MFBs in Kenya.

The study concludes that Flexible social collateral strategy influence customer retention in MFBs in Kenya. The regression coefficients of the study indicate that Flexible social collateral strategy had a significant positive influence on customer retention in MFBs in Kenya. This implies that increasing levels of progressive lending would increase the levels of customer retention in MFBs in Kenya. This shows that Flexible social collateral strategy had a positive influence on performance customer retention in MFBs in Kenya.

The study concluded that sequential lending strategy influence customer retention in MFBs in Kenya. The regression coefficients of the study show that sequential lending strategy had a significant positive influence on customer retention in MFBs in Kenya. This implies that increasing levels of sequential lending would increase the levels of customer retention in MFBs in Kenya. This shows that sequential lending had a strong positive influence on performance customer retention in MFBs in Kenya.

RECOMMENDATIONS

The study recommended that there is need to allow members to switch collateral savings from one member to another to minimize customer attrition. The social collateral can be a reward for good loan repayments for repeat borrowings. The organizations

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can revise the credit policy to cover security requirement for group members provided that other loan requirements are fully satisfied.

The study recommends that there is need for the compulsory savings for the members that determine allowable loan mounts to reduce customer attrition. The shares can be used to reduce a member's loan to reduce attrition rate. The pegging loan graduation on previous loan repayment record can also encourage members to stay as members since it can cultivate a sense of hope. The high level of monitoring among members need to be encouraged to determine need for loan graduation which can also reduce member attrition.

The study recommended that members need to freely do peer screening before being allowed to borrow. The MFBs can be encouraged to carry out peer selection as a way of minimizing customer attrition and members of groups can carry out self-risk profiling in determining loan amounts and when to be disbursed to members. The MFBs should initiate ways of cultivation and activating social structures which can encourage member unity.

The study recommended that MFBs can carry out peer monitoring by grouping members into small borrowing pools to create a sense of competition in managing good repayment record that result in reduced attrition. There is need to have adequate acquisition of relevant information; social sanction and peer pressure in case on loan default to reduce customer churn.

Areas for Further Research

The study was a milestone for further research in the field of customer retention in MFBs and firm performance. The findings have demonstrated the important group lending strategies to include; free will own selection, progressive lending, Flexible social collateral and sequential lending. The current study covered only 72% and the remaining 28% should therefore be expanded further in future in order to determine other factors influencing customer retention in the MFBs in Kenya. Group lending is gradually diminishing despite the potential to capture poverty reduction as well as profit making. As an area of study, a comparison should be drawn between MFBs highly focused on individual lending and Group lending.

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