EFFECT OF SERVICE QUALITY DIFFERENTIATION STRATEGY ON CUSTOMER LOYALTY AMONG COMMERCIAL BANKS IN NAKURU TOWN, KENYA

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A Research Project Submitted to the Department of Business Administration in Partial Fulfillment of the Requirement for the Award of Master in Business Administration Degree (Strategic Management) of St. Paul University

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DECLARATION

I declare that this research project is my original work and has not been presented, either in part or full, in any University for any award.

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DEDICATION

I dedicate this work to my friend, mentor and father Timothy Macharia Kabaa and my family for their support, time and prayers.

ACKNOWLEGEMENT

I would like to thank especially God for helping and guiding me in my studies, and also thanks to my family and mentors who have supported me morally and spiritually through this journey.

ABSTRACT

Commercial banks are important financial institutions in any economy because they mobilize savings for investments and wealth creation. The service industry is very competitive while products offered are similar hence their only source of competitive strategy is differentiation of service offered. Consequently this study examines the relationship between the service quality dimensions (SERVQUAL) and customer loyalty among major commercial banks in Nakuru town. The dimensions studied are service environment (Tangibility), interaction quality, reliability of service and empathy as explained by SERVQUAL framework. The objective is to examine how the commercial banks leverage on the service quality dimensions to gain competitive advantage in the form of enhancing customer loyalty and whether customer loyalty differ across the banking institutions in any significant way. It adopts descriptive research design which is applied on six major commercial banks in Nakuru as listed by the Central Bank of Kenya. The population targeted includes existing customers visiting the major commercial banks in Nakuru town. A systematic random sampling method was used to select 120 bank customers from all the six major banks in the town. Data collected was analyzed using SPSS to test the independence and relationship using Kruskal-wallis difference test, Pearson correlation coefficient and OLS multiple regression analysis. The results indicate that SERVQUAL is applied in the major banking institutions in Nakuru town but with some difference. Service environment, interaction quality, empathy and reliability are positively and significantly related to customer loyalty. A banks service environment has the strongest association with customer loyalty (r=0.7) followed by reliability (r=0.44) then interaction quality (r=0.40) and lastly empathy (r=0.3) However when testing for their predictive power, only service environment, interaction quality and empathy are statistically significant. The reliability factor fails the test by returning a statistically insignificant regression coefficient. Overall bank managers and staff need to focus their attention at modernizing their facilities, providing sufficient lighting and ventilation and strive to be more empathetic to their customers. The customers want to see a more personalized attention when it comes to banking service while facilities like Automated Teller Machine (ATMs) and mobile banking channels should be more reliable. This way customer satisfaction may increase and thus loyalty would follow. The moderator (customer satisfaction) does not have a significant effect on the relationship between service quality and customer loyalty which implies that major banks in Nakuru town deliver near similar services measured by SERVEQUAL.

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ABBREVATIONS

ATM	Automated Teller Machine
CRM	Customer Relationship Marketing
CL	Customer Loyalty.
CS	Customer Satisfaction
ECR	Efficient Customer Response
IMF	International Monetary Fund
RM	Relationship Marketing
SPSS	Statistical Package for Social Sciences
SERVQUAL	Is an acronym for service quality.

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CHAPTER ONE
INTRODUCTION

1.0 Background of the Study

Service quality and customer loyalty have remained central to the survival of service firms in a globally competitive environment. The competition for consumer attention and choice continue to be key factors in service industry and are thought to be related one way or another. Service quality has been seen to be defined by the gap between what a customer gets and what his/her expectation was/is according to Lonial et al. (2005). Service firms recognize customer loyalty in the creation and maintenance of competitive advantage (Apondi, 2016). By continuously making improvements and following up on the kind of services provided to customers, then a company's earnings can be expected to rise due to consumers increased satisfaction with the quality of service or product delivered.

Increased competition in the financial sector and advancing technology in information and communication around the world demand that financial firms take a keener look at what they sell to customers and how that is delivered. Since the financial services sector main business is lending and facilitating financial transactions, the quality of service they provide is likely to separate performance in terms of profits and customer numbers (Muhsin et al., 2012). Declining profits from controlled lending rates in Kenya since 2016 and similarity of products between banks means they have to re think their business models so as to remain competitive and profitable. Globally banks main assets are financial in nature and the returns are low per unit. Therefore to maintain levels of profits reported, the financial institutions have to significantly increase volume of transactions and number of customer accounts held for both deposits and loans. Apondi (2016) argues that loyal customers are attached to their banks and thus would be easy to serve and continue earning a decent return from them than to attempt to attract new customers.

According to Siew and Sedighen (2015) service quality (SERQUAL) model is changing to conform to different types of services and regions. Service quality dimensions may not be similar for different industries or even regions. Each service sector is described by a unique set of service quality components. They came up with a modified bank service quality model comprising of six dimensions including convenience, online banking, security and price.From their study of the Malaysian banks. The model is seen to improve on Parasuraman, Zaithaml and Berry (2013). On the other hand Guo, Duff, and Hair (2008) identify four components of service quality namely reliability, human capital, communication and technology that capture service quality in the Chinese banking sector. All these studies indicate that the subject of service quality continue to baffle researchers and scholars with no single consistent explanation given to define the underlying components.

One of the most popular service quality models developed in 2013 is the RATER model (Zeithaml, Parasuraman and Berry, 2013). The model name is an acronym for responsiveness, assurance, tangibility, empathy and reliability. It contends that the dimensions of quality service is defined by responsiveness which is the willingness to assist customers and provide timely services. Assurance refers to employee knowledge about their work and courtesy toward customers to build trust and confidence. Tangibility captures the physical facilities, equipment and staff appearance while empathy explains the provision of personalized service to the customers. Finally reliability is the ability to perform the promised service dependably and accurately. This model is simplified and easily applicable to the banking sector. Its usefulness in quantitative assessment of customer experience is not in doubt (Zeithaml *et al*, 2013).

Creating and maintaining customer loyalty is one of the essential elements determining a company's success or failure (Muhsin, Sana, Aasia, & Shaheed, 2012). Marketers seek to develop and maintain customer loyalty by creating long-term relationship with customers. For many businesses, this is key to the survival and growth especially for service firms. In the modern competitive environments, services quality is becoming more important in the competitive market.

Several studies have shown that service quality plays the role of mediating customer loyalty in the sense that with higher service quality customer loyalty increases (Petruzzellis, D'Uggento and Romanazzi, 2006).

When service quality is poor then customers are likely to shift attention to other providers which so far is a major reason why banks should be unique in ways of delivering quality service to customers. Therefore, the biggest challenge to service companies today is to attract and maintain loyal customers (Wong & Sohal, 2003). Service quality dimensions especially, reliability, responsiveness, assurance, empathy and tangibles or service environments are critical to the performance and survival of service oriented businesses, due to related gains of resultant customer loyalty and consequently profitability. This provides the business with a competitive advantage over its competitors in the industry. These dimensions have an influence on customer loyalty. However, there is little empirical evidence in the banking sector; hence this aspect needs to be investigated (Zeithaml et al., 2013).

Caruana, (2002) contend that service businesses can promote their competitive position only through developing a customer base that is significantly large and faithful in the long run. This means that for any organization seeking to be competitive, customer commitment is a key. As a rule there is a correlation between service quality and loyalty which comes through satisfaction.

Customer loyalty is a construct that convey different meaning to different market players. It is defined as either attitudinal or behavioral disposition. For instance it means favorable attitude toward a firm or its product or service, an attachment feeling or affection for a product or service or even people (Pearson, 1996). Customer feelings are demonstrated through customer behavior like repurchase behavior and positive word of mouth. When customers are loyal a business is able to ride on the wave and increase sales and profits. Therefore the indicators of customer loyalty need to be better understood to drive the agenda for enhancing service performance in banks in Kenya.

In Africa, players in the service industry especially those in the banking sector face the challenges brought about by the world becoming increasingly interconnected while boundaries are collapsing. Banking institutions have to find more creative ways of providing financial solutions to clients as competition intensifies. In Kenya for instance, due to increased foreign investment in the banking sector there is high competition, hence the need for banks to use appropriate strategies to gain competitive advantage in the industry. Service quality is one of the strategies that can successfully yield this advantage if applied well.

The strategy adopted by many service organizations worldwide is to focus on creating long-term relationships with consumers, thereby building customer loyalty (Kumar, Batista & Maull, 2011). They contend that building customer loyalty is critical as it does not only leads in customers staying with a service provider for longer, but they also purchase more from that service provider hence improving the profitability of the organization by keeping the advertising and other marketing costs low.

Loyal customers are beneficial to the organization because they not only purchase more from the organization but they also give referrals to their friends by word of mouth. Scholars have argued that customer loyalty or commitment should be viewed as a strategy to generate benefits for both customers and business organisations (Murugan, 2013). These benefits include increasing purchase frequency which means increased spending by patronizing new products or services. Additionally loyal customers have the excitement to spread the word to those potential clients or users and are likely to help collect necessary information on customer tastes and preferences (Ibid). Also in support of benefits for loyal customers Omenye (2013) point out that loyal customers are less likely to be persuaded by rivals because of price and make more purchases than non-loyal customers.

In the annual Central bank report (2012), there are 43 registered and licensed commercial banks in Kenya. Out of these commercial banks thirty (30) are locally owned while 13 are foreign owned. The foreign owned bank holds about 35% of the banking assets in the market. Only six

banks (Standard Chattered Bank, Barclays Bank, Co-operative Bank of Kenya, Equity Bank, Commercial Bank of Africa, and finally Kenya Commercial Bank, control more than half of the banking sector market.

In Kenya the commercial banks dominate the financial sector in a way that any failure in the sector will have a great negative implication on the economic growth of the country which its main cause is the increased bankruptcy, which in the long run will bring about economic hardships and overall financial crisis.

The banking sector in the Kenyan market is significantly large by market capitalization. Many of the banks provide regular banking, insurance and credit services to customers in Nakuru town and its surrounding. Commercial banks operating within Nakuru Municipality as at June, 2015 were 21 in number. This study seeks to determine how service quality applied as a strategy for competitive advantage influences customer loyalty among commercial banks in Nakuru Municipality.

This study thus attempts to investigate the relationship between service quality dimensions and customer loyalty using a descriptive approach. The theoretical foundations for the study are SERVQUAL and cognition-affect-conation models which have been widely applied to measure customer satisfaction and loyalty across many sectors and countries. A questionnaire approach is used to collect primary data from visiting customers in the six selected major banks who control above 60 percent of the financial services market according to the Central Bank Report (2015). Customer experience, feelings, attitudes and intentions toward a particular banking brand is to indicate how service quality difference relates to satisfaction and eventually customer loyalty.

The paper is organized as follows; a problem statement is stated along with the objectives and research questions, scope and significance. In the next chapter, the theoretical and conceptual under pinning of the study are highlighted and a framework illustrated and explained. Chapter three describes the research methodology which includes design, population, how the sample

was selected from the population, assembled and data analysed to find answers to the research questions.

Chapter four discusses the study findings drawn from the analysis which is both descriptive and inferential. The discussion is related to objectives and prior studies by other authors to place the study among extant literature. Finally chapter five summarizes the findings and makes appropriate conclusion and recommendation to help bank staff deliver better services to satisfy customers and increase loyalty. Service quality is a widely studied area in customer satisfaction literature with findings that are not consistent. This outcome necessitates further study to help extend literature for academics and service management experts and practitioners.

1.1 Statement of the Problem

In the last decade, banking regulation, structure, technology and competitive factors have significantly changed in Kenya. Competitive factors have directed focus by bank managers away from traditional customer numbers and deposits to providing better service. There is increased realization that high service quality would result in higher customer satisfaction and loyalty, willingness to recommend to someone else, reduced complaints and improved customer retention rate (Levesque & McDougall, 1996). Since the introduction of the interest cap law in 2016, bank profits growth have slowed down to less than 10 percent (CBK report, 2018) also lead to several banks resorted to process of rationalization and staff layoff to try and improve their bottom line.

Therefore increased competition between banks has pushed the institutions beyond looking at banking process to focusing on how services are delivered. Among the many service quality models constructed, SERVQUAL (Parasuraman, 1988) has become more popular for many service industries including banks. The model measures perceptions of service quality against expectations using five dimensions of reliability, responsiveness, tangibility, assurance and empathy. This dimensions were later modified by Karatepe (2005) into four that were used in this study namely Service environment, interaction quality, reliability and empathy. The difference between perceptions and expectation based on SERVQUAL is inversely related to

customer satisfaction and loyalty. This study examined how well the model explains customer loyalty among commercial banks in Nakuru town. Indeed several customers have complained in the media and from personal interviews about the long queues in banking halls and unreliable services from their bankers. This scenario motivated the study and considering that there is no similar study known to the researcher that has modeled SERVQUAL on customer loyalty in Kenya. Those reviewed (Manduku, 2013; Karambu, 2015; Nuria, 2015) have all returned mixed results. Therefore more empirical evidence is required on the applicability of SERVQUAL model in the context of Kenya's financial services sector. Specifically the aim of the study is to establish how Servqual model can be applied in this banks namely Standard Chartered Bank, Barclays Bank, Co-operative Bank of Kenya, Equity Bank, Commercial Bank of Africa, and finally Kenya Commercial Bank to improve customer loyalty among commercial banks in Nakuru town.

1.2 Objectives of the study

The general objective of the study is to examine how differentiation of service quality dimensions influences customer loyalty for commercial banks operating within Nakuru town.

1.2.1 Specific objectives

(i) To determine how service environment influences commercial bank customer loyalty in Nakuru town

(ii) To examine how interaction quality (responsiveness and assurance) influences customer loyalty in commercial banks in Nakuru town.

(iii) To assess the extent to which empathy levels by bank staff influence customer loyalty toward commercial banks in Nakuru town.

(iv) To determine the effect of bank service reliability on customer loyalty among commercial banks in Nakuru town.

1.3 Research Questions:

i). What is the relationship between the service environment and bank customer loyalty in Nakuru town?

ii) How does interaction quality between bank staff and customers influence customer

loyalty among major commercial banks in Nakuru town?

iii) How does empathy level by bank staff affect customer loyalty among major commercial banks in Nakuru town?

iv) How does service reliability influence customer loyalty among major banks in Nakuru town?

1.4 Significance of the study

This study examines how customer loyalty is influenced by quality of service provided by commercial banks in Nakuru town. It further explores the differences attributable to provision of services by major banks in Nakuru to anchor the argument that quality of service in the banking sector can be leveraged to differentiate performance. The study is important since its findings are likely to help the bank managers in Nakuru understand the place of service quality differentiation and how the dimensions affect customer loyalty. The bankers would find this study interesting especially in designing service policies that create a distinctive impression in the minds of customers to enhance competitiveness in the banking sector. Customers may experience better service and become more discerning. The bankers on the other hand shall enhance service quality as strategy for increasing customer loyalty.

1.5 The Scope of the study

This study focused on finding out whether commercial bank service quality is significantly related to customer loyalty and the extent to which service quality differentiates performance of the six major commercial banks in Nakuru town. The banks are Kenya commercial bank, Equity bank, Cooperative bank, Barclays bank, Stanchart Bank and National bank. Service quality dimensions namely service environment, interaction quality, empathy and reliability are explored using primary data from 120 random customers approached conveniently at the banking halls in Nakuru. Respondents were requested to fill in a predesigned questionnaire indicating their perceived service quality based on the SERVQUAL model. The customers were approached as they exited their banking halls in Nakuru town. The data collection took place over a period of one week involving 20 customers from each bank spread out over a period of 8 hours on a regular banking day except Saturday.

DEFINITION OF TERMS

Customer Loyalty: Customer loyalty generally should be understood to mean a commitment by customers to purchase and continue using a particular product, brand, or service time and again. A loyal customer does not buy product or services of the completion because identification with a specific brand is quite strong. (Lovelock, Christopher & Jochen, 2011).

Customer Satisfaction: This is the pleasure derived from using a particular product or service. A customer is satisfied when the product or service experienced meets the need or even exceeds customer expectation and can be demonstrated through a disposition of attitude or intended behavior. A satisfied customer makes repeated purchases, has favorable word of mouth about service experience that is passed to others.

Differentiation Strategy: A deliberate plan of action undertaken by commercial banks to deliver superior product or service to customers in order to gain a competitive advantage (Porter 1985)

Service Quality: The nature of service provided perceived as either being of higher, lower of average performance. It is sometime being thought of as being the gap between what a customer expects and what is actually delivered. (Tsoukatos & Rand, 2010). It is a quality tool that can be used to measure and identify gaps in service delivery that need urgent attention (Zeithaml *et al.*, 2013).

SERVQUAL Model: A model for measuring service quality. The model assesses customer perceptions on service quality in service and individual experience.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter contains the theoretical and empirical review of relevant literature, strategies, concepts and models of service quality, customer satisfaction, conceptualization and operationalization of study variables.

2.2 Theoretical Framework

2.2.1 Cognitive-Affect-Conation Model

The cognitive-affect-conation model (Nien et al. 2011) is the main source of model framework proposed for the study. This model postulates that a customer can be loyal at every stage of the above mentioned model namely cognitive loyalty, affective loyalty, conative loyalty, action loyalty. The cognitive loyalty is the first stage that results from previous or specific understanding or current experience. At this beginning stage, the loyalty strength is usually weak because it is drawn from mere performance. This is then followed by stage two loyalties described as affective loyalty. This stage is characterized by a fondness or attitude formation towards the brand arising from the satisfying experiences of the first stage. The fondness develops which is also observed to be some kind of attachment. This reveals the pleasure aspect of the satisfaction which is a pleasurable fulfillment. Stage three of loyalty is conative in nature which refers to the behavioral aspect of loyalty. Here a customer shows a willingness to purchase or use a particular product or service as repeat behavior. Conation can thus be defined as the product or service commitment to repurchase or repeat buying. The last stage of loyalty is referred to as action loyalty. In action loyalty, customer loyalty emerges from prior intentions. It depicts the motivated intention that progress from the previous stages of loyalty transforming into willingness to take action (Samaz et al. 2012).

2.2.2 SERVQUAL Model.

SERVQUAL is an acronym for service quality. It is a quality tool that can be used to measure and identify gaps in service delivery that need urgent attention (Zeithaml *et al.,* 2013). They developed a multi item scale (SERVQUAL) for measuring service quality. The model assesses customer perceptions on service quality in service and individual experience. In its original form originally comprising of 10 aspects of service quality but was later reduced to make it simpler to apply and interprete. This resulted in a descriptive model known by the acronym RATER, whose full meaning is; "Responsiveness" that is the willingness to help customers and provide prompt services, "Assurance" which mean that a service provider needs to have knowledge and courtesy so that customers may gain trust and confidence. "Tangibles" or tangibility as a service quality refer to the physical facilities, equipment and personnel appearance at the point of providing a service. The facilities should be clean, comfortable, and adequate while the structures ought to be sufficient and well designed. "Empathy" as a quality of service in the banking sector refer to provision of individualized attention to each and every customer whether big or small. This would make the customers feel valued. Finally "Reliability" is the provision of services of products in a dependable and accurate manner.

2.3 Conceptualizing Service Quality.

Abbasi, Khalid, Azam and Riaz (2010) define quality as the perception of the customer on how well a product or service meets or exceeds their expectations. Quality service can be subjective or objectively measured if some external standard is applied. It is a key determining factor of customer satisfaction and precipitates the customer to seek value for money. Quality of goods and quality of service are not achieved the same way. While quality of goods can be standardized, the same cannot be said of quality of service. Service quality is largely described as personalized and heterogeneous since the perception of quality service is dependent on the consumer. Some of the documented dimensions of service quality are intangibility, heterogeneity, perishability and inseparability of the provider of service and quality of service. Hence there is need to understand the concept of service quality especially for a financial services sector that is very critical to wealth and employment creation. Quality as a concept has

been defined variously and may mean different things to different people. It is an elusive and complex construct. It is also important to identify the attributes of service quality in order to have a better understanding of the construct. Some authors have identified attributes of service quality to include intangibility which mean it cannot be touched, heterogeneity meaning it is not uniform thus each customers experience may be different toward a provider. Many authors agree that it is difficult to separate the quality of service from the consumer and the provider. Therefore service provision is personalized in nature but minimum standards are expected from customers and providers (Aydin & Ozer, 2005).

Service quality is often conceptualized to be represented by the difference between service expectations and actual service experienced (Zeithaml, V.A., Parasuraman, A. & Berry 2013. Therefore, service quality influences customer satisfaction and loyalty as a whole. It is pointed out that service quality is the ability to meet or even exceed customer expectations in real and psychological terms (Caruana, 2002). It is a consumer's evaluation (Aydin & Ozer, 2005) about superiority of a service provided by an entity. It is apparent that service companies are beginning to understand that quality does not improve if you cannot measure customer satisfaction (Reichheld & Sasser, 1990). A number of studies have revealed an association between customer satisfaction and commitment that is satisfied customers are likely to be loyal while dissatisfied customers are not (Omenye, 2013). According to Caruana, (2002), the perception of service quality is fed by the customers view and connection between customer- employee interaction, the service situation, and the service experience.

2.3.1 Service Quality as Competitive Strategy

The banking sector in Kenya is very competitive, with banks not only competing between themselves but also with non-banks and other financial institutions (Kaynak and Kucukemiroglu, 1992; Hull, 2002). Banks compete in the financial services sector in providing financial solutions to clients. The services they provide are similar in form and delivered through information communication technology. Bank competition has increased with the cap on lending interest rate because net interest income is lower per borrower. Thus customer attraction now largely depends on qualities that define service standard like reliability, responsiveness, courtesy and assurance

they give to their customers. It is the bank that scores highly in the area of service quality that shall attract and retain customers and hence increase repeat business and consequently improve profits. The study therefore attempts to investigate whether commercial banks in Nakuru town compete on the basis of quality of service to remain profitable. Excellent service quality may be leveraged to outperform competition. A higher quality of service has the likelihood of enhancing the satisfaction of the customer. In support of this argument, Radomir et al. (2011) contend that superior service quality may result in a competitive advantage against peers. This happens because customers are increasingly more satisfied when better services are delivered through any of the established banking channels. A satisfied customer is buys more of a service and spreads the good name to other potential customers and is unlikely to consider competitors persuasion. Thus identifying those probable areas for improvement, service quality can be the point of sale and competitive edge for banks that care for their customers.

2.3.2 Dimensions of Service Quality

It is generally an accepted view by researchers including (Kadir et al. 2011) that service quality measurement is important for organisations that compete to deliver service financial or otherwise. A competitive advantage in service sector stems from the providers ability to promise and deliver superior service. Whereas the particular indicators of customer loyalty is easy to isolate, the specific drivers of service quality is still debatable among scholars and researchers. (Kabira, 2015).

Five dimensions of service quality provide a framework for assessing, planning, and implementing service quality program. The five components of quality service explained by service environment, reliability, assurance, responsiveness and empathy are at best, fulfilled through their quality in a banking service environment. Studies in the Malaysian banking industry showed that responsiveness, reliability, empathy and assurance are key determinants influencing customer satisfaction (Munusamy and Fong, 2008)..

There are significant developments in the recent past that have revealed new perspectives in

service quality. These developments provide a solid foundation for understanding service quality and include the transition from “customer satisfaction” to “delighting the customer” as quality standard in service sector. There has also been a paradigm shift from "total quality management" to "total quality leadership". In addition customers are to be seen not as purchasers of goods but users of products and services.

2.4 Customer Loyalty

Customer loyalty is a concept continues to enjoy significant attention among scholars and researchers. Saeed et al., (2011), Zairi, (2009) and Khan, (2012) point out benefits of focusing on winning customer loyalty. These include reduced tendency to switch loyalty, increased customer trust and quality service to clients. Customer loyalty occurs when a customer is already satisfied therefore achieving satisfaction is first and foremost before loyalty can happen.

2.5 Service quality attributes of Banking

Commercial banks need to understand the service attributes used by customers to select banking service. For instance customers would use bank image, bank performance, bank assurance, and physical layout of the bank in selecting bank services. When banks understand the thinking of its customers then they are able to manage customer feelings toward their product and service. This way they are better able to guide customer's attitudes and views in the desired direction thus encouraging customer loyalty.

Banks place a high premium on customer interactions quality with both commercial and retail customers. However since the advent of automated teller machines and internet banking, this relationship has faced serious challenges because increasingly banking is becoming impersonal. Relationship banking which is a pillar for survival for many banks is slowly eroded with the advancing communication technologies seen today. It would be interesting to find out extent to which relationship banking (face-to-face) interaction has been affected by increased use of technology to access services. Extant literature may be right suggesting that the right indicators of service quality would rely on the kind of service studied (Bahia, 2000; Sureschandar et al., 2002).

2.5.1 Service Environment Dimension

The service environment describes a banks physical layout, arrangement of chairs tables, their comfort and design in the banking hall and lobby. This dimension of service quality is sometimes called tangibility and refers to how appealing and visually attractive the bank facilities are both inside and outside the banking hall. Tangibles according to Davis et.al (2003) are the physical evidence of the service. The physical nature of banking refers to; space adequacy, clean well ventilated and orderly facilities to create the necessary ambience for customer comfort. Further, the staff should be smart and knowledgeable about their tasks, work flow and feedback procedure. Therefore customers of banks would be more attracted to a bank with modern facilities, spacious halls comfortable furniture, good ventilation and lighting in the banking hall. A direct relationship between service environment or tangibles and customer loyalty is expected through the intervening role of customer satisfaction.

2.5.2 Interaction quality Dimension

Interaction quality includes assurance and responsiveness used in SERVQUAL models. This dimension of service quality connotes attitudes and character of the service providers and the way they handle customers. It connotes competence to perform, kindness in handling service requests, respect for customer and effective communication. Quality interaction means bank staff should be warm, courteous, pleasant and willing to help. All information shared by bank staff ought to be accurate, timely, and appropriate. This interaction quality improves the bankers image, promotes goodwill and reputation of service provider. Quality banking service should embrace openness and speed of service delivery (Fitzsimmons & Fitzsimmons, 2001). Quality interaction between bank staff and customers is taken to directly bear on customer positive perception of quality of service and hence increase their loyalty.

Assurance focuses on know-how and warm response from staff and their ability to elicit trust and confidence to bank customers. Assurance as a component of quality is connected with the customer's perceived security of their transactions and deposits in banks and privacy they enjoy

while doing business with banks. Trust is built on the assurance that all transactions undertaken through a bank are secure, safe and that outcomes are guaranteed. (Cai and Jun, 2003; Ribbink *et al.,* 2004).

Quality service is also described by responsiveness of the service provider. It is defined as the eagerness to assist customers and provide timely service (Zeithaml, et al. 2002). This quality defines superior service in the eyes of the customer (Voss, 2000). A clear understanding of customer preference and developing the service that include prompt response has increased probability of building trust and contentment (Gummerus *et al.,* 2004).

2.5.3 Reliability Dimension

Service reliability is an important component of quality. It is the ability to perform the promised service dependably and accurately. This service dimension is similarly important with regards to customer loyalty regardless of the service setting. Johnson (1997) includes punctual service delivery, keeping to agreements made with customer. Banks deploy technology to deliver service to customer. The technology to deliver service for banks need to be reliable and dependable by experiencing fewer downtimes and timely delivery. A reliable service is one that bank customers expect every time they use the service especially those that are delivered through information and technology. Since banking systems the world over are predominantly technology driven, it has become necessary to guarantee reliability of the delivery channels to improve customer perception of quality of service. Information communication and technology systems depend so much on its reliability to increase its appeal. Therefore a direct relationship between reliability and customer loyalty is posited in this study. Service reliability is thus largely controlled by the service setting.

2.5.4 Empathy Dimension

To empathize is to care for or individualized attention the firm provides its customers. Empathy as a service quality is the ability of bank employees to be approachable like being a good listener, sensitivity (Fitzsimmon & Fitzsimmon, 2001). It demonstrates the degree to which

information or service is directed to meet the needs of the customer (Lee, 2005). This dimension has become more important when evaluating quality of online services (Zeithaml, 2000). Empathy is directly related to positive perception of service quality. When one views bank service, then the way a bank treats its customer become a distinguishing area that separates better quality from average quality. The human touch in banking has its greatest connection in the empathy field. It signifies high regard for the customer and showing concern for the need of the customer.

2.6 Customer Satisfaction as Antecedent of Customer Loyalty.

Customer satisfaction is an antecedent of customer loyalty. When a customer is satisfied then he or she is likely to be loyal. This quality is critical to banks survival and growth (Belás et al., 2015, Chavan & Ahmad, 2013, Keisidou et al., 2013). Caring for the customer and ensuring the customer is satisfied continue to preoccupy the attention of bank management and consumer satisfaction researchers around the world. This happens because of the understanding that in order to achieve the growth and financial objective of banks, meeting and exceeding a customer's expectation is paramount. Researchers argue that there is a difference between customer satisfaction as related to physical commodities and as related to service experiences. The difference is due to the nature of the two products which sets them apart in terms of uniformity and production-consumption space. Consequently, customer experience with services and with commodities may vary by a number of variables distinct from each other. (Veloutsou et al., 2005).

Oliver (2015) defined "satisfaction and dissatisfaction in terms of the disconfirmation of consumer expectation". A positive disconfirmation yields in consumer satisfaction while a negative disconfirmation results in customer dissatisfaction. Other authors like Dominici and Guzzo (2010) looked at customer satisfaction as a marketing selling point which is about creating value for users of products or services while meeting and guiding their needs. One must also demonstrate ability and responsibility to satisfy client needs though it is generally accepted that user satisfaction with an experience does lead to customer loyalty. Studies on customer satisfaction have been numerous and set in many contexts. Many of them have been based on

linear models from website quality to sports service relationships (Siddiqi, 2011, Khan (2012).

2.7 Empirical Review.

From the foregoing discussion, several studies have been carried out on the factors that determine customer loyalty in the banking industry with results that are not consistent in both developed and developing markets. There are studies using fewer dimensions of service quality while others have used five or more dimensions to measure quality.

Among the most recent studies on service quality debate is Ahmad et al. (2016) who posited that service quality in the banking sector in Pakistan was fairly strongly associated with customer loyalty with a positive and significant coefficient of 0.568. Osman et al. (2015) in their study of Malaysian commercial banks realized a stronger relationship with a coefficient of 0.61 between service quality and customer loyalty. Customers are said to seek organisations that offer superior quality service and remain loyal to them in the long run (Turban, 2002).

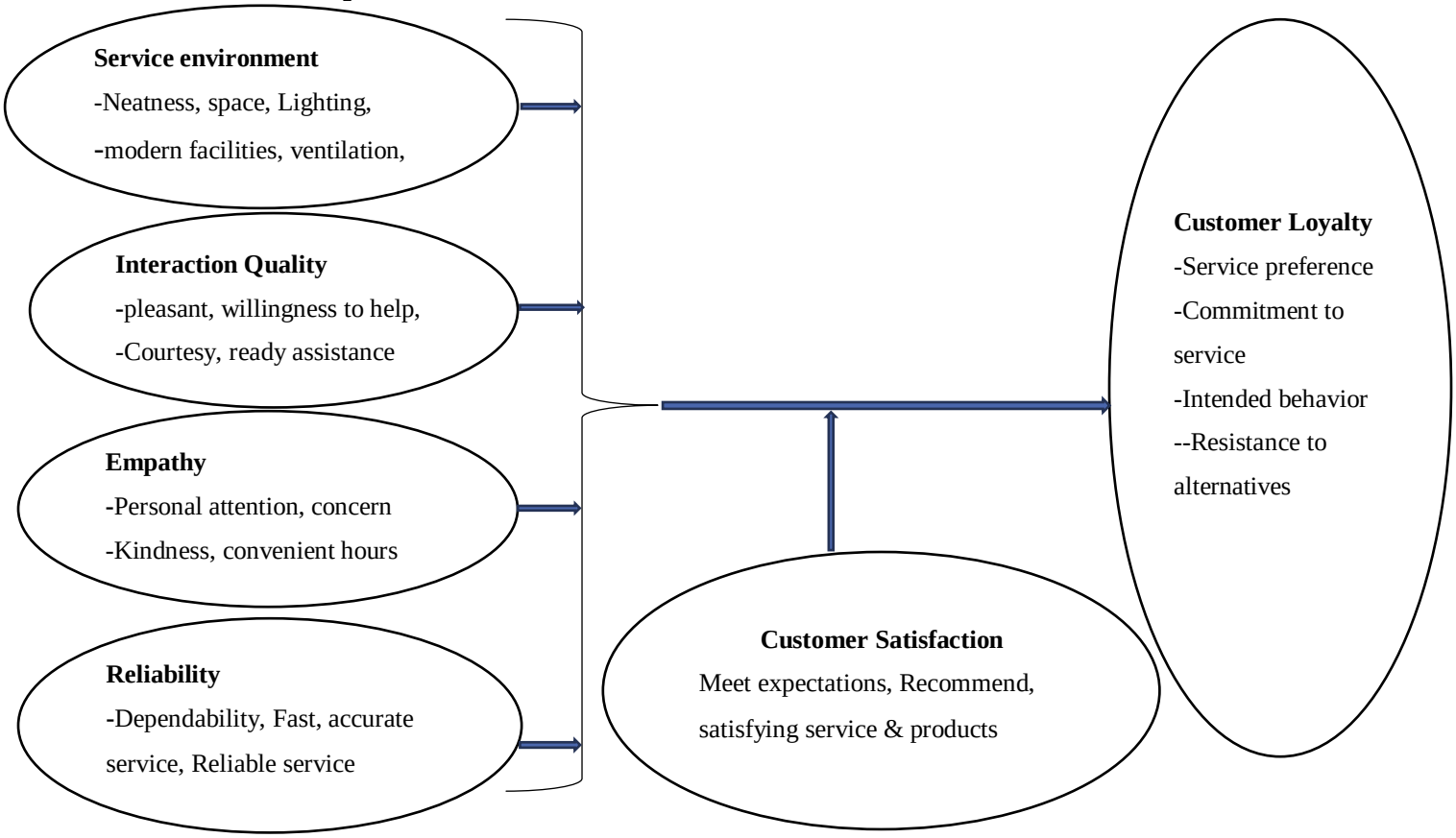
Closer home in Kenya, Karambu (2015) studied factors influencing customer loyalty in Family bank. His findings were that service quality is very strongly related to customer loyalty with a significant coefficient of 0.873. All the constructs of service quality (RATER) are positively and significantly associated with customer satisfaction which in turn is linked to customer loyalty. In addition Nuria (2015) while studying effects of service quality practices on customer satisfaction in commercial banks in kenya realized that commercial banks relied on SERVQUAL dimensions to some extent. Another study of service quality dimensions in Kenyas mobile money transfer service concluded the dimensions assisted managers to deploy specialized service design and delivery to promote service quality (Onyimbo, 2015). A look at the dimensions performance one notice differences in impact on customer satisfaction and loyalty. For instance while Apondi (2016) concludes all the dimensions of service quality are positively and significantly related to customer loyalty among banks in Kenya, Sidi (2016) report results that are in direct contrast. She contends that all the dimensions of service quality are statistically insignificant at the 0.05 level. This result may have suffered from methodological deficiencies.

In the Middle East, Rousan and Mohammed (2010) conducted a study on the relationship between service quality and customer loyalty in the hotel industry in Jordan and found out that empathy, reliability, responsiveness, tangibility, and assurance significantly predict customer loyalty. Similar results were reported by Chen and Lee (2008), Liang (2008), Rizan (2010), Jamal and Anatassiandoin (2007). However, Kheng et al (2010) concluded that tangibility had no significant impact on loyalty among bank customers in Malaysia. In addition responsiveness and loyalty did not also show significant relationship in their study. But service quality and customer satisfaction was strongly related with customer loyalty. Muhamed (2013**)** concluded in a study of banks strategy for attracting and retaining loyal customers that satisfaction, loyalty, closeness, commitment, transparency, communication and superior service was linked to customer attraction and retention in Jordan.

Service quality findings from Nsia and Asantewaah (n.d) on the effects of service quality on customer retention among banks in Ghana had positive and significant coefficients of as follows; tangibility, (0.778), reliability (0.642), responsiveness (0.818), assurance (0.796), and empathy (0.886). Customer retention is closely tied to customer loyalty since only a loyal customer would easily want to remain with the trusted and satisfying service provider. The coefficients for the dimensions were relatively high compared to those realized in Kenya. More importantly though is that the coefficients met *a priori* expectations.

Manduku (2013) examined determinants of customer loyalty in retail bank sector in Kenya. His findings were that only reliability positively predicted customer satisfaction and eventually influence customer loyalty. Other studies (Ahmad & Ahmad 2016) in their study of the banking sector in Punjab, Pakistan realized low correlation coefficient (0.229) between service quality and customer satisfaction but fairly stronger association between customer satisfaction and customer loyalty (0.568). These results beg the question why are the findings of service quality among Kenyan banks inconsistent? The study is going to unravel the situation based on large banks in Nakuru town.

FIGURE 2. 1 Conceptual Framework



2.8 Operationalization

In the study, Service Quality model (ServQual) by Karatepe (2005) is to be used based on an adapted questionnaire. Specifically, service quality items were transformed into Likert type items and the respondents asked to indicate their perceptions of their bank on each item using a five point scale ranging from **1–Strongly disagree** to **5-Stronglyagree.** Customer purchase intension, customer satisfaction and loyalty are also to be measured using a five point scale. Each quality variable shall be measured using 6 items and shall include a structured question to elicit a respondent's independent opinion. Service environment, interaction quality, reliability, and empathy are the key variables tested for quality in this study which is expected to determine whether the commercial banks in Nakuru town provide differentiated service based on these factors and if indeed each of the banks customer loyalty is driven by the service quality

dimensions. Further customer satisfaction will be tested for the intervening effect between service quality and customer loyalty.

2.9 Summary

From the literature review so far, the study examines effect of service quality as strategy for separating high from low performing banks in Nakuru town. Service quality framework adapted in this study is drawn from Keratepe (2005) consisting of four dimensions namely service environment, interaction quality, reliability and empathy which can easily fit into the RATER model. The researcher opines that there exists a link between service quality that a bank deploys as a competitive strategy and customer loyalty which results from customer satisfaction. The gap addressed by this study is "has service quality been leveraged by Nakuru banks to enhance their competitive advantage in terms of increasing loyalty of customers?" Fewer studies have focused on the relationship between service quality perceptions and customer loyalty among banks in kenya (Apondi, 2016, Sidi, 2016, Nuria, 2015, Onyimbo, 2015) and even then they do not consider service quality model as a strategy for differentiating performance of banks. Conceptually, the RATER model developed from SERVQUAL model so far does not appear to provide an unambiguous and consistent explanation for the predictors of customer loyalty in commercial banks in Kenya. This study consequently examines the role played by a modified SERVQUAL model to explain effects of service quality on customer loyalty. It further tests the moderating effect of customer satisfaction on the relationship between quality of service and customer loyalty.

The next chapter evaluates and describes the research methodology. It identifies the sample size, unit and elements from whom cross sectional data is collected and analysed. The expectation was to find empirical support for the relationship between SERVQUAL dimensions and customer loyalty. In addition, an assessment of the role of the service quality model in differentiating bank performance in terms of customer faithfulness or loyalty was also envisaged.

CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the research plan which includes design, population, sample and sampling techniques. It also discusses how data is collected and analyzed to find answers to the research questions and objectives. The chapter finally highlights how data is presented after conducting appropriate analyses and interpretation of results.

3.1 Research Design

The design is an efficient method of describing data characteristics. The design is also correlational in the sense it attempts to determine strength and nature of association between customer loyalty on one hand and service environment, interaction quality, empathy, and reliability on the other hand. Cooper and Schindler (2008) describes research design as comprising an activity linked to a research question which guides the selection of data sources, provides a framework for specifying relationships between variables and outlines the procedures for the research process. This study adopted descriptive research design. Descriptive research is defined as research where the outcome sort is that which as closely as possible represents the persons or situations being studied (Saunders, Lewis & Thornhill, 2009). The study employed a correlation approach to analyse the problem of service quality across major banking entities in Nakuru town. According to Owens, (2002), a correlation survey studies relationships between variables in terms of nature and strength of association. Data collected was cross sectional involving sample equal elements from six major commercial banks in Nakuru town.

3.2 Population Description

The study is conducted within Nakuru town and targets customers visiting the six major banks within the study area for various transactional services. With hundreds visiting each bank on an ordinary working day some days are busier than others. Overall an estimated 100 customers visit each bank on a less busy day (every third week of the month) from personal sources contacted from each bank. Bank customers targeted both male and female aged above 18 years seeking banking service in the institutions. There are 6 major banks operating within Nakuru town. Six

major banks by market Share (controlling 70%) namely Barclays, Cooperative, Standard Chartered, Equity, National and Kenya Commercial Bank and the remaining are smaller banks. These are; Family bank, African Banking Corporation, I &M Bank, DTB Bank, Housing finance bank, Jamii Bora bank, credit bank, Imperial bank, consolidated bank K-rep bank, chase Bank, CFC bank, Trans National bank, Eco bank, NIC bank(central bank report, 2015).

3.3 Sampling techniques

A sample is a part of the population selected to be fairly representative and made to provide statistics to represent the parameters of the population. (Mugenda and Mugenda, 1999). They state that between 10 and 30 percent of the target population can make up a sample. Therefore taking an average of 20 percent of the targeted population from each bank gives 20 customers for each bank selected within Nakuru town. Sample elements (Customer) are selected conveniently at the pleasure of the researcher and the target respondent. This is because it would not be easy to arrange them in any particular order to allow for probability sampling to be done. Customers were accosted as they exit the banking halls and requested to fill in a questionnaire. While at it, all effort shall be made to balance by gender and to achieve some randomness hence reduce bias in sampling procedure. The sample distribution across the six banks is shown below.

Table 3. 1 Sample Distribution between the banks

Bank	**Sample**
Barclays Bank	20
Stan chart Bank	20
Kenya Commercial bank	20
National Bank	20
Equity Bank	20
Cooperative bank.	20
Total (N)	**120**

Any customer walking into the banking hall on an ordinary working day Monday to Friday is considered a potential respondent. It is assumed the customer visited the same bank before and therefore has an opinion about the services offered by the bank staff. Data was collected for at

least five days between Monday and Friday of the third week of the month of April, 2019 because it is considered less busy compared to the other weeks. The questionnaires were administered between 9am and 3pm by researcher and two assistants.

3.4 Data collection tools

A modified SERVQUAL questionnaire based on four factors with both structured and unstructured questions was used to collect data from the customers. The questionnaire method was preferred because it is confidential and simple to administer including scoring of items and analysis (Karatepe, 2005). The items in the questionnaires were developed on the basis of the indicators or dimensions of service quality as defined by the four subscales; service environment (tangibility), interaction quality, reliability, and empathy. Customer loyalty being the dependent variable is also measured using 4 items. The purpose of the questionnaires was to capture sufficient information and additional information related to subject of study. A moderator in the name of customer satisfaction was included to establish how it affects the relationship between service quality and customer loyalty. Satisfaction levels of the customer are posited to influence his or her perception of quality of service in many service firms. All the dimensions were measured by an average of seven statements or items.

3.5 Reliability

Reliability of an instrument is the extent of consistency with which it measures a variable (Mugenda & Mugenda, 1999). Questionnaires were pilot tested in order to check their reliability. Factor loading of at least 0.7 (alpha) is to be confirmed to ensure internal consistency of the items from the piloted instruments. The four factor service quality model is adopted from Turkeys study by Karatepe et al (2005).The pilot testing is to be conducted at the Kenya Commercial Bank (KCB) Njoro town branch, and Coop bank at Njoro township.

3.6 Validity of Instrument

Content and face validity of the items in the instrument were gauged by supervisor. Content validity is expected to demonstrate sufficient coverage of the scope of content while the scale of

measurement must be appropriate to produce variety of response that will make the analysis easy. The supervisor permitted the tool as acceptable for the research to be carried out.

3.7 Data Analysis and Presentation

The data collected was organized and cleaned of errors made during data collection. The data was then coded, keyed in the computer and analyzed with the aid of the Statistical Package for Social Sciences (SPSS) to test hypothesis of independence and relationship using Pearson correlation coefficients, regression analysis and Kruskal -Wallis tests for difference between the banks in terms of customer loyalty. Data output is then presented in the form of graphs, charts and tables.

Table 3. 2 Data analysis table

Research Questions	**Testing Technique/Relationship and Difference**	**Decision Criteria.**
i) Is the bank service environment significantly related to customer loyalty among major banks in Nakuru town?	The nature and strength of relationship between the bank service environment, customer loyalty among banks in Nakuru town. A multiple OLS regression equation to estimate the ability of service environment to predict changes in customer loyalty.	A probability value $p<0.05$ imply that the association between service environment and customer loyalty is statiscally significant.
ii) Is interaction quality between bank staff and customers related to customer loyalty among major commercial banks in Nakuru town?	The nature and strength of relationship between interactions quality and customer loyalty among banks in the town. A multiple OLS regression equation including interaction quality to estimate how much of the change in customer loyalty is predicted by interaction quality when all else remain the same.	A probability value for correlation coefficient ($p<0.05$) mean strong association quality and customer loyalty.
iii) Does empathy level by bank staff necessarily affect customer loyalty among major commercial banks in Nakuru town?	What is the nature and strength of the relationship between empathy levels and customer loyalty among commercial banks in Nakuru town? Based on a multiple OLS regression, the ability of empathy to predict changes in customer loyalty is estimated.	A probability value ($p<0.05$) signify strong association between empathy and customer loyalty.
iv) Does service reliability influence customer loyalty among major banks in Nakuru town?	How does service reliability relate to customer loyalty among banks in Nakuru town? This is measured by correlation analysis to show nature and strength of relationship. Multiple linear regression to	Strong association between reliability and customer loyalty if the probability value is less than 0.05 significance

	estimate proportion of the changes in customer loyalty predicted by reliability.	level.

3.8 Ethics

Authorization was obtained from the banks prior to carrying out the study. Data collected was treated confidentially and described as it is. The researcher gave assurance to the respondents regarding confidentiality of information obtained.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents analysis of data collected by questionnaires and guided by the study objectives. It discusses findings and presents the findings using appropriate charts and tables. Data analysis takes the form of descriptive and inferential statistics and techniques deployed are mainly parametric because they are superior to non-parametric ones.

4.2 Response Outcome

All the 120 questionnaires were administered at the main branches of the six major banks namely Barclays, Cooperative bank, Stanchart, Kenya Commercial bank, Equity bank and National bank of Kenya in Nakuru town. This process took five days and involved 20 respondents (customers) from each bank approached as they exit the bank premises. Upon completion of the administration of questionnaires to customers, 106 of the questionnaires were found to be fully completed and returned. This represented a response rate of 88 percent out of the 120 provided. Therefore this response result was good enough to facilitate further analysis and presentation of findings.

4.3 Preliminary analyses

Preparation of the instruments was necessary before any actual data analysis is conducted to ensure the data meets the required expectations for applying statistical tools envisaged in the study. Therefore reliability tests, normality tests, outlier tests and homoscedastic tests are necessary at the initial stage.

4.3.1 Reliability test

A reliability test for each scale and items in the questionnaire is done to ensure internal consistency of the items and scales used. The test has to be confirmed for each factor (independent and dependent variable) just to affirm the alpha coefficient is acceptable. What is sought is a high alpha coefficient, above 0.7 (Pallant, 2001). However Briggs and Cheek (1986) argued that sometimes low alpha values are realized from short scales (with fewer than 10 items) in this case, it would be appropriate to report the mean inter-item correlation which should lie

between 0.2 and 0.4.

Therefore each factor/variable namely service environment, interaction quality, empathy, reliability, customer loyalty and customer satisfaction each having more than 5 items were subjected to a reliability test using Cronbach test on SPSS 23. The results of this test are shown in the table 4.1 below. Customer satisfaction item "I am likely to seek services of other banks if not satisfied with my main bank" had to be reverse coded to mirror the true weight before conducting the test. Further, items 4 on service environment and item 4 on "Reliability factor" along with item 6 on "Customer satisfaction" were deleted to improve the overall alpha coefficient of the respective scales to 0.7 and above. This is done because with low coefficients (below 0.7) certain questions or statements are deemed to be inconsistent with peer items for the scale.

Table4.1 Alpha coefficients for the Factors

No.	Factor	No of items	Alpha coefficient
1.	Service environment	7	0.731
2.	Interaction quality	6	0.709
3.	Empathy	7	0.712
4.	Reliability	6	0.745
5.	Customer loyalty	6	0.709
6.	Customer satisfaction	6	0.741

Evidently table 4.1 shows that the six factors or variables had items that were internally consistent given the high alpha coefficients returned from the tests (above 0.7) therefore subsequent tests could be done on the sample data. Piloting of the instrument was done among 5 smaller banks from which the items were confirmed reliable and accurate when the alpha coefficient returned averaged 0.8 for service environment, interaction quality, empathy, reliability, customer loyalty and customer satisfaction. Twenty five respondents were involved in the piloting of the questionnaire. This however did not mean a confirmatory test would not be done on the responses from the large banks.

4.3.2 Normality test

Some statistical tests (Parametric) are deemed superior to the non-parametric tests. Parametric tests are preferred in the analysis and therefore assumptions supporting them have to be affirmed. These parametric tests are only applicable if sample data exhibits normal probability distribution which is bell-shaped. As such, a histogram with normal curve superimposed was generated for each of the factors computed from the sum total of the item rank to confirm normality and absence of outliers. Normality distribution of scores for each factor ensures that statistics computed are unbiased and efficient. The overall mean rank for service environment according to the Figure 4.1 is 21.75 and a standard deviation of 5.47. With a fairly normal distribution of scores, this variable meets the assumption of classical linear regression model.

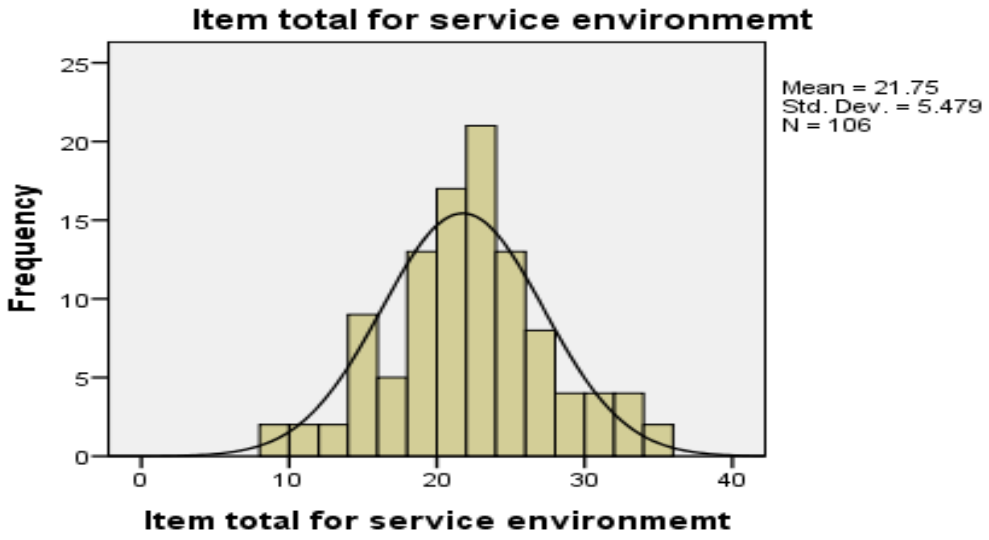


Figure4.1 Distribution of scores for Service Environment

The banks interaction quality is the willingness of bankers to help customers and provide prompt service. When the distribution of scores is explored, a normal curve fits well on the histogram generated from the data as seen in the Figure 4.2. An overall mean value of 18.38 and standard deviation of 4.42 describes the normal curve with its lowest rank total of 5 and the highest of 35. Therefore interaction quality also makes it as variable applicable to any parametric tool.

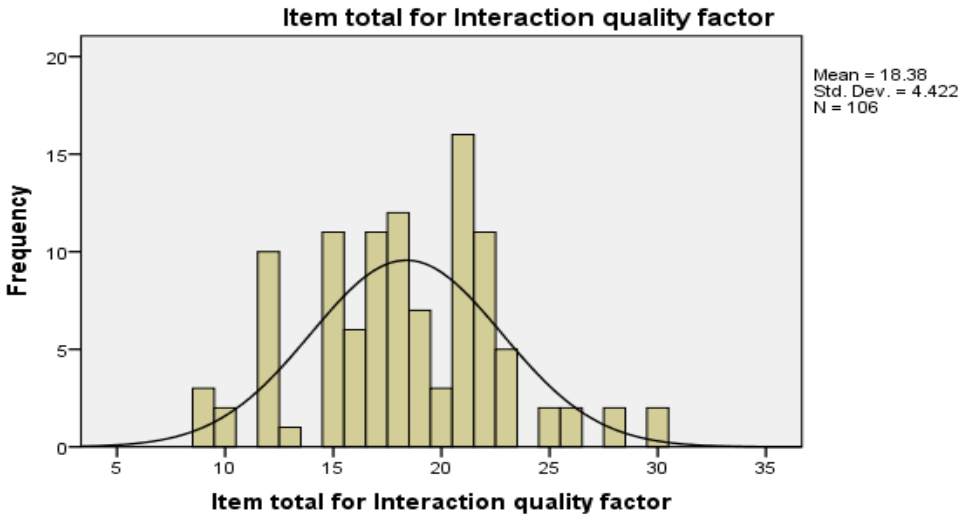


Figure4.2 Distribution of Scores for Interaction Quality

The distribution of scores for the factor 'Empathy' as shown in Figure 4.3 reveal fairly normally distributed responses with a mean of 21.75 and standard deviation of 5.235. Therefore the factor score meet the assumption of normality which is expected in the analysis.

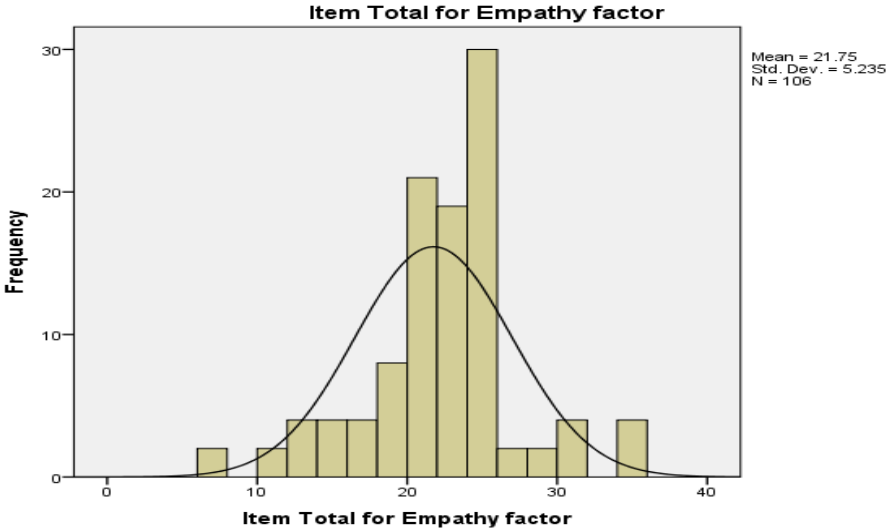


Figure4.3 Distribution of Scores for Empathy

Reliability in service quality means the ability to perform the promised service dependably and accurately. The factor has 6 items whose total sum is used explore if the distribution of scores is normal. The Figure 4.4 Indicates rank data for this variable is normally distributed and as such the factor qualifies for inclusion in the parametric tests. The mean value for the factor is 18.38 while the standard deviation is 4.42. This means that at the 95 percent confidence level, the true value for the factor in the population lies between 13.96 and 22.8.

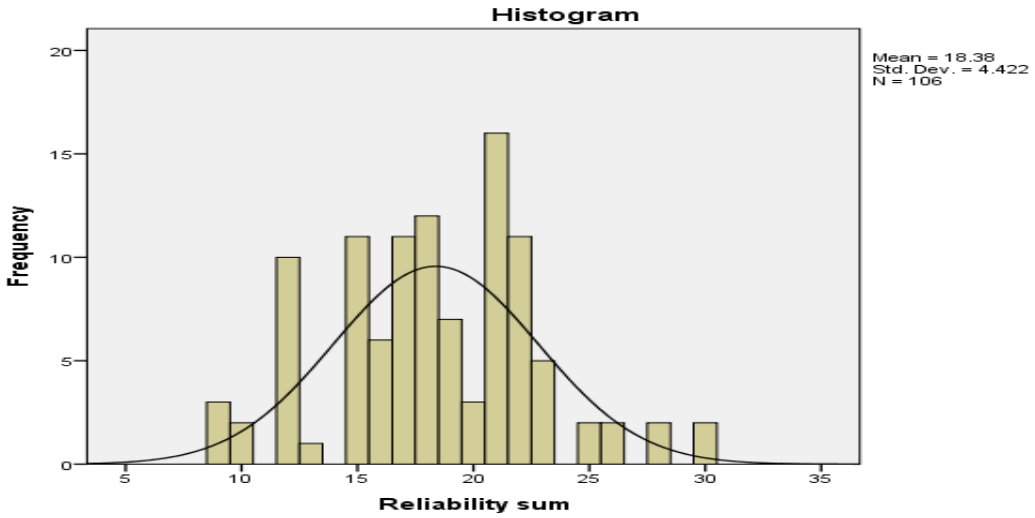


Figure 4. 4Distribution of scores for Reliability

Customer level of commitment to services provided by a bank was the dependent variable measured by 6 items. A close inspection of Figure 4.5 shows the factor also displays a fairly normal distribution of responses based on the total sum with a mean value of 18.46 and a standard deviation of 4.982. A low standard deviation compared to the mean value signifies higher consistency for the factor and the statistics are more efficient.

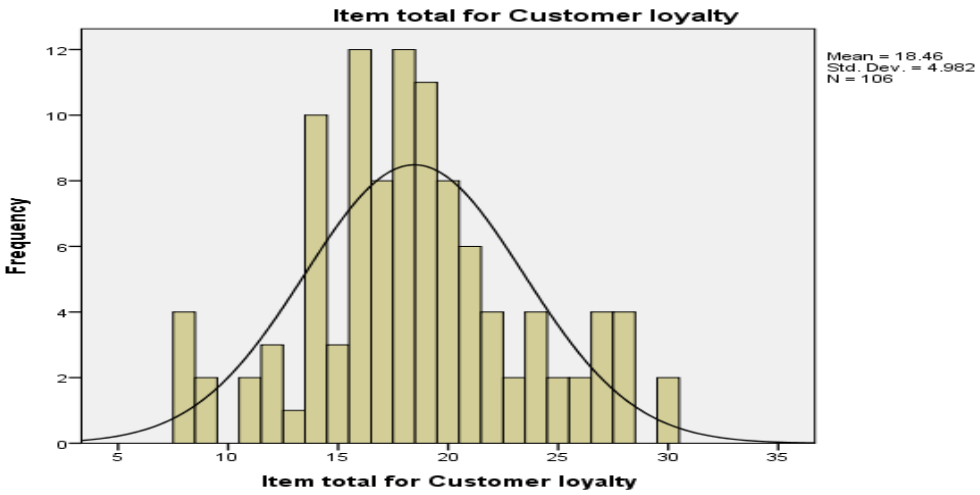


Figure4.5 Distribution of Scores for customer Loyalty

The scores for this factor (Figure 4.6) were normally distributed with a mean value of 21.75 and a standard deviation of 5.23. This makes the factor applicable to a classical linear regression model and tested for moderating effects.



Figure4.6 Distribution of Scores for Customer Satisfaction

4.4. Presentation of biodata

Section A of the questionnaire captured biographical data of the respondents in four subsections

namely customer bank, customer category, and age category and education level attained by customer. These data is important because as dummy variables they may influence the results of study.

4.4.1 Distribution of respondents across banks

The researcher had sought to balance the number of respondents from each of the sampled banks. This was anticipated to enable test of difference in performance to be conducted. Hence attempts to achieve equal representation of respondents from each major bank sampled were made. While the initial target was 20 customers from each bank, the final result of completed questionnaires indicate that out of a total of 106 valid questionnaires returned, 16 were from Barclays bank representing 15 percent, 18 from Cooperative bank representing (17%), 17 from Stanchart (16%), 17 from Equity bank representing 16% of the total sample size, National bank participants were 17 (16%) and Kenya Commercial bank had 21 respondents representing about 20% of the total sample (Figure 4.7)

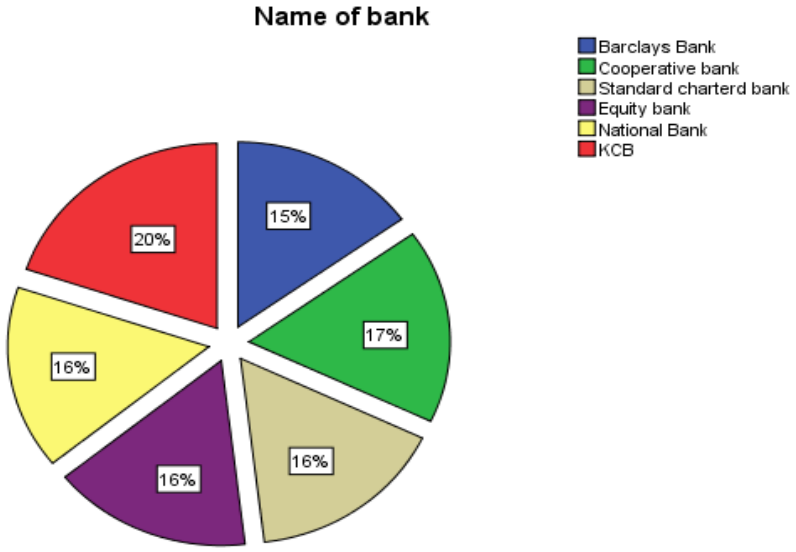


Figure 4. 7 Share of Respondents from each bank

From the Figure 4.7 the share of respondents from each bank was fairly distributed and thus difference was not considered significant to affect result of any test conducted that is sensitive to group size. For instance, Analysis of Variance popularly described as (ANOVA) test is sensitive

to group size if unbiased and efficient results are expected. Therefore out of the reduced sample of 106, each bank contributed nearly equal number of customers who participated in the study. This was done to make comparison of bank performance easy as assumed by parametric tests (ANOVA) and also proposed for Kruskal-Wallis test. Besides the researcher realized that that it was not easy to estimate the number of customers visiting each bank on a daily basis when the banks are open. Therefore given the banks are large it was assumed that a sample equally distributed would provide a fair picture.

4.4.2 Customer category

Customers of commercial bank can be categorized into individual and institutional or corporate customers. Individual customers operate personal accounts while corporate customers who are bulk customers operate organizational accounts characterized by larger size of transaction. Figure 4.8 show that between the two groups, individuals customers made up 71% of the selected customers who participated in the study. Corporate customers constituted 29% of the sample respondents.

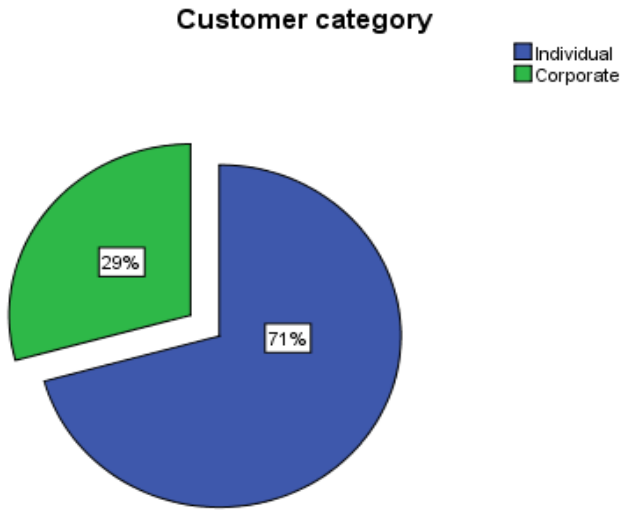


Figure4. 8 Category of Customer

The representation of customers by category is a fair reflection of the number of customers visiting the banks on an ordinary week day since data collection happened through a period of one week that was not very busy.

4.4.3 Age category of customers

Figure 4.9 show that sampled bank customers from the six major commercial banks in Nakuru town were aged 30 years and below (26%) between 30 and 40 years (41%), those aged between 41-50 were 27% of the 106 total sample. Bank customers aged 50 years and above were only 6% from the total number sampled. Therefore a greater proportion of respondents were aged between 30-40 years, the group was followed by those aged 41-50 years then those under 30 years and lastly those aged above 50 years. Youthful customers of banking institutions usually are very dynamic and expect continuous innovations in banking procedures and channels that would make their experience more comfortable and convenient. This is the group comprising those under 40 years of age who make up 67 percent of the respondents (41+ 26) = 67.

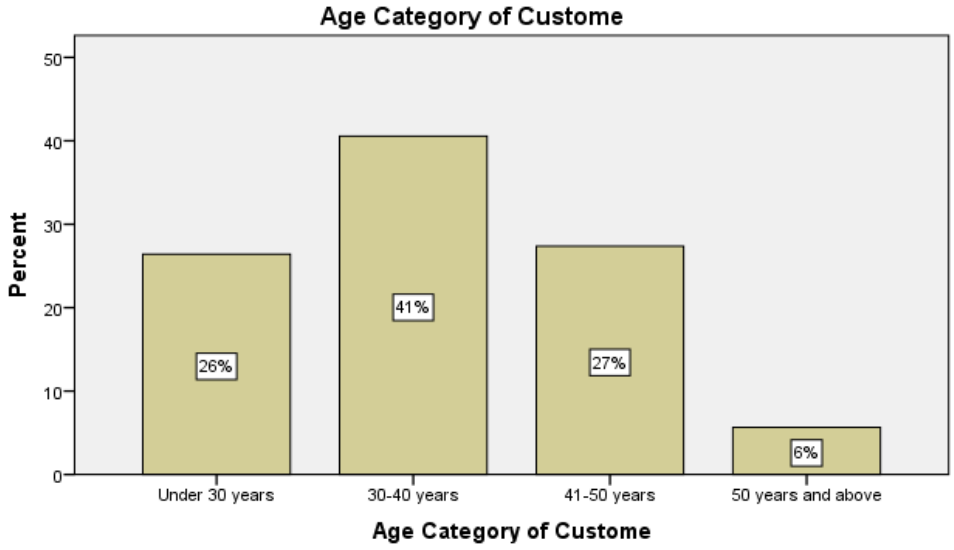


Figure 4. 9 Age category of Customer

4.4.4 Respondent education level

Figure 4.10 presents results for the highest education level attained by the respondents sampled in the study. The findings show that a greater proportion of the sample had diploma qualification

(35%) followed by form six (23%), Master (16%), Bachelors (13%) and form four (13%). Thus the customers with post-secondary education were more, signifying better understanding of service quality issues being investigated. They are expected to grasp the constructs of customer loyalty, satisfaction and service quality that relate to their behavior when it comes to banking experience.

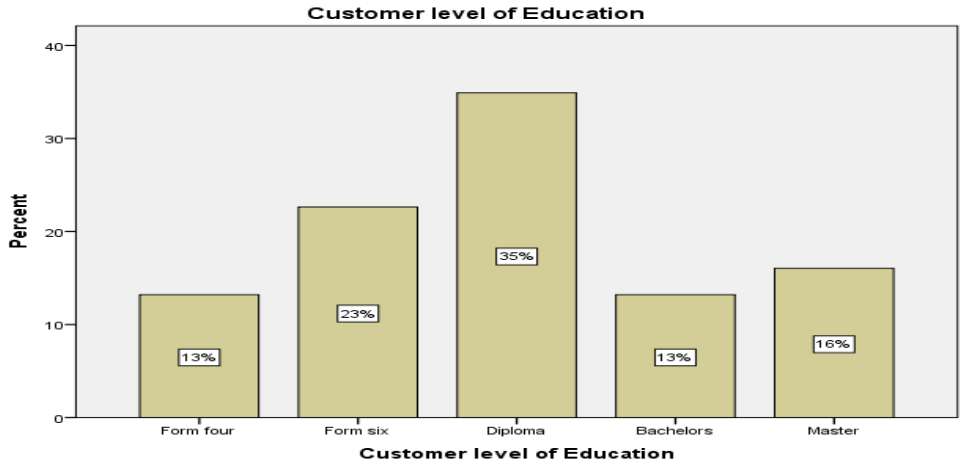


Figure 4. 10 Customer level of Education

4.5 Descriptive statistics of Service Quality dimensions

The study identified four dimensions of service quality which form the framework of study. These independent variables are analyzed in detail and findings discussed and summary of results presented. The dimensions of service quality are service environment, interaction quality, empathy and reliability. The dependent variable which is the predicted variable is customer loyalty which in this study is hypothesized to be influenced by the four selected dimensions of service quality adopted from Keratepe (2005). Additionally, customer satisfaction was introduced to the study as a moderator variable affecting customer loyalty. The moderator effect on the relationship between service quality dimensions and customer loyalty is examined at the end of this section.

Table 4. 2 Descriptive statistics for Service Quality Dimensions.

	Barclays Bank		Coop Bank		Stanchart Bank		Equity Bank		National Bank		KCB	
μ=Mean/	μ	σ	μ	σ	μ	σ	μ	σ	μ	σ	μ	σ
Service Environment	2.7	0.9	2.60	0.73	2.81	0.76	2.9	0.77	2.7	0.4	2.65	0.38
Interaction Quality	2.6	0.7	2.5	0.6	2.8	0.63	2.8	0.69	2.6	0.48	2.27	0.52
Empathy	3.0	0.67	2.98	0.57	3.1	0.4	3.0	1.0	3.05	0.78	3.3	1.02
Reliability	2.7	0.52	2.58	0.44	2.22	0.55	2.6	0.7	2.57	0.54	2.97	0.72
Customer Loyalty	2.94	0.38	2.70	0.45	2.9	0.55	3.07	0.65	2.77	0.55	2.75	0.31
Customer Satisfaction	2.84	0.57	2.58	0.55	2.77	0.65	2.81	0.53	2.54	0.45	2.78	0.74

4.5.1 Service Environment and customer loyalty

Service environment refer to the physical appearance of the banking institution, physical facilities, equipment, personal and communication material (stationery). This environment creates the right ambience and atmosphere that would make a customer feel more comfortable and the banking hall more attractive.

Table 4.2 indicates that service environment score was highest for Barclays bank and lowest for Cooperative bank with a mean rank 2.7 and 2.6 respectively. Interaction quality score was highest for Equity bank and lowest for KCB with mean values of 2.8 and 2.27 respectively. The third dimension of service quality was empathy which had its highest score as 3.3 for KCB and

the lowest was 2.98 for Coop bank. The bank that was rated most reliable was KCB (2.97) while the least reliable bank was Stanchart bank (2.22). Customers of equity bank were rated as being most loyal to their bank (3.07) followed by Barclays bank (2.94). However, cooperative bank customers were least loyal (2.70) to their bank. Finally customer satisfaction was highest among customers of Barclays bank but lowest among customers of National bank with respective mean values of 2.84 and 2.54. Overall cooperative bank and national bank of Kenya had poor scores while Barclays bank and Kenya commercial bank are front runners in meeting customer needs. Each bank only managed an average score of about 3.0 against an expected maximum score of 5.0. This means nearly all banks have specific issues with the way they interact and handle customer requests. Weaknesses in the dimensions across banks are asymmetric. All banks however did not vary significantly in terms of customer satisfaction and loyalty. They all the same managed to score relatively well on empathy factor but poor at keeping their word with the customer. Despite the weak points, customers were not ready to switch loyalty just yet probably due to costs associated with it.

A descriptive analysis of each item that measures the variable reveal the following result (Table 4.2). The figures in brackets are the percentages corresponding to the frequency values indicated.

Table 4. 3 Descriptive statistics for service Environment

Statement/scale	1	2	3	4	5	mean	SD
a)The bank has modern looking facilities	19 (17.9)	18 (17)	30 (28)	23 (21.7)	16 (15.1)	2.99	1.31
b) The bank's physical features are visually appealing.	11 (10.4)	25 (23.6)	34 (32.1)	22 (20.8)	14 (13.2)	3.03	1.18
c) The bank's reception desk employees are smart dressed.	9 (8.5)	27 (25.5)	24 (22.6)	23 (21.7)	23 (21.7)	3.23	1.28
d)Bank provides comfortable experience	7 (6.6)	25 (23.6)	24 (22.6)	40 (37.7)	10 (9.4)	3.2	1.11
e)Banking hall is well ventilated	16 (15.1)	28 (26.4)	14 (13.2)	32 (30.2)	16 (15.1)	3.04	1.33
f)Banking hall has good lighting	18 (17)	25 (23.6)	19 (17.9)	29 (27.4)	15 (14.2)	2.98	1.33

g) Bank provides adequate space for customer comfort	9 (8.5)	24 (22.6)	26 (24.5)	22 (20.8)	25 (23.6)	3.28	1.28

The Table 4.2 contains descriptive statistics of responses for each statement along with the percentage across a 5-point Likert scale from "Strongly Agree" to "Strongly Disagree" with the middle score being fairly agree. A look at the table, one observes that the highest mean rank was 3.28 associated with the bank providing adequate space for customers comfort. The standard deviation is 1.28. This is followed by the bank staff dressing smartly which returned a mean rank of 3.23 and standard deviation of 1.28. The lowest mean rank is noted on banking hall having poor lighting with a rank of 2.98 and standard deviation of 1.33. Therefore while banking halls are comfortable for the customers, lighting of the halls is not sufficient and this may affect vision for some customers. It is apparent that the mean rank for the items averaged 3.0 which means respondents fairly agreed to the physical facilities, ventilation, and physical appearance staff to being satisfactory. However the halls are not well lit and facilities not quite modern. This if not addressed may result in customer dissatisfaction and reduced loyalty for the banks.

4.5.2 Interaction quality and customer Loyalty

Table 4.4 is a summary table depicting descriptive statistics for the items measuring interaction quality. Each item is described by frequency of occurrence, percentage in brackets, scale mean and standard deviation. These values (mean and standard deviation) explain the range of population value and confidence intervals at the 0.05 level of significance.

Table 4. 4 Descriptive Statistics for Interaction Quality

Statement/ Scale	1	2	3	4	5	mean	SD
a) Bank employees tell you exactly when the services will be performed.	18 17	25 23.6	26 24.5	26 24.5	11 (10.4	2.88	1.25
b) Bank employees give you timely service.	8 (7.5)	20 18.9	40 (37.7)	31 (29.2)	7 (6.6)	3.08	1.02
c) Bank employees are always willing to help you.	10 (9.4)	26 (24.5)	36 (34)	22 (20.8)	12 (11.3)	3.0	1.14
d) Employees in the bank are always willing to assist customer's request.	9 (8.5)	20 (18.9)	26 (24.5)	34 (32.1)	17 (16)	3.28	1.19
e)Bank employees are always available to help	5 (4.7)	27 (25.5)	37 (34.9)	26 (24.9)	11 (10.4)	3.1	1.10
f) The bank employees are courteous	15	21	30	26	14	3.03	1.25

	(14.2)	(19.8)	(28.3)	(24.5)	(13.2)

Table 4.4 reveals that the highest mean rank was 3.28 and standard deviation of 1.19 which refer to employees of the bank always willing to assist customer's request. This is followed by bank employees being available to help with a mean rank of 3.1 and standard deviation of 1.10. However the lowest rank item measuring interaction quality 2.88 with a standard deviation of 1.25 (bank employees not telling exactly when the service will be performed). Overall the mean range for the ranks was between 2.88 and 3.28 signifying a significant gap between customer expectation and actual experience of interaction quality between bank staff and customers. Improving interaction quality may be necessary for the banks so that customers may become more satisfied with the interaction experience hence becoming more loyal.

4.5.3 Empathy and customer Loyalty

This dimension of service quality refers to the attention the bank provides its customers. It was measured by 7 items including personal attention, convenient working hours, kind employees, understanding customers concerns, paying attention to specific customer needs to quick attendance of customer's issues and putting customer first.

Table 4. 5 Descriptive Statistics for Empathy

Statement/ scale	1	2	3	4	5	mean	SD
a) The bank gives you personal attention.	23 (21.7)	32 (30.2)	27 (25.5)	12 (11.3)	12 (11.3)	2.6	1.26
b) The banks operating hours are convenient to all its customers.	12 (11.3)	19 (17.9)	24 (22.6)	36 (34)	15 (14.2)	3.22	1.23
c) The bank has employees who are kind.	8 (7.5)	17 (16)	40 37.7	27 (25.5)	14 (13.2)	3.21	1.1
d) The bank understands customer concerns.	17 (16)	14 (13.2)	31 (29.2)	24 (22.6)	20 (18.9)	3.15	1.32
e) The employees of the bank pay attention to customers specific needs	13 (12.3)	30 (28.3)	29 (27.4)	16 (15.1)	18 (17)	2.96	1.27
f)customer concerns are attended to quickly	12 (11.3)	13 (12.3)	32 (30.2)	28 (26.4)	21 (19.8)	3.31	1.24
g)The bank always place the customer first	16 (15.1)	14 (13.2)	18 (17)	38 (35.8)	20 (18.9)	3.3	1.33

Summary Table 4.4 show that on this quality, the banks quickly attend to customer mean rank of 3.31 and a standard deviation of 1.24. This is followed by putting customers first with a mean rank 3.3 and standard deviation of 1.33. The banks scored poorly on giving personal attention at 2.6 (sd= 1.26). Each customer may require unique attendance which the banks are not providing. This is supported by a poor score of 2.96 (sd=1.27) for paying attention to customer specific needs. This outcome may mean the banking institutions are increasingly becoming impersonal probably due to the advancing technology and stiffer competition for the market which is possibly reducing focus on individual. Focusing on specific customers need is necessary to improve empathy and its relationship with loyalty. Empathy breeds recognition and appreciation both of which are important in creating and sustaining customer loyalty

4.5.4. Reliability and Customer loyalty

An inspection of the descriptive Table 4.5 shows that the banks were highly reliable only on "ensuring error free records" with a mean rank of 3.31 and standard deviation of 1.17 followed by "services being dependable always" (mean value of 3.1 and S.d of 1.05). the figures in brackets are percentages corresponding to the frequencies of occurrence.

Table 4. 6 Descriptive Statistics for Reliability

Statement/ scale	1	2	3	4	5	Mean	SD
a) When the bank promises to do something by a certain time, it does so.	11 (10.4)	30 (28.3)	28 (26.4)	26 (24.5)	11 (10.4)	2.96	1.17
b) When you have a problem, the bank shows a sincere interest in solving it.	7 (6.6)	21 (19.8)	40 (37.7)	31 (29.2)	7 (6.6)	3.09	1.01
c) The bank performs the service right the first time.	10 (9.4)	16 (15.1)	46 (43.4)	22 (20.8)	12 (11.3)	3.09	1.09
d) The bank insists on error free records.	8 (7.5)	20 (18.9)	26 (24.5)	35 (33)	17 (16)	3.31	1.17
e)Bank services are always dependable	5 (4.7)	27 (25.5)	37 (34.9)	26 (24.5)	11 10.4	3.1	1.05
f)Bank services are fast and accurate.	15 (14.2)	21 (19.8)	30 (28.3)	26 (24.5)	14 13.2	3.03	1.24

Conversely, banks could not be relied upon to "provide service by the time promised". For example, with the ticketing method of managing queues, the time promised on the ticket is not reliable since fewer tellers hamper delivery of fast service. Many respondents indicated slow rate of service especially during peak season of opening schools or even end of months and

beginning of another. Some respondents observed that sometimes the automated teller machines (ATM) do not work or breakdowns or cash outs are becoming more often. This reduces bank service reliability. It appears that with the opening up of other banking channels like mobile banking and internet banking the banks is not quite keen on ensuring their ATMs work as expected.

4.5.5 Customer loyalty as dependent Variable

Following this distribution, each item reveal statistics indicating the highest mean rank refer to "recommending the bank to others" (3.2, standard deviation of 1.24). This is followed by "feeling appreciated by the bank which has a mean rank of 3.19. This means the customers felt they would recommend their bank to others (Loyal) and that they felt appreciated by their bank. Hence despite the deficiencies noted about service quality, the customers did not think that would make them switch loyalty.

Table 4. 7 Descriptive statistics for customer loyalty

Statement /scale	1	2	3	4	5	mean	SD
a) You visit the bank more often for their service	10 (9.4)	25 (23.6)	29 (27.4)	26 (24.5)	16 (15.1)	3.12	1.21
b) You carry out more transactions through this bank	11 (10.4)	25 (23.6)	27 (25.5)	29 (27.4)	14 13.2	3.09	1.21
c) You would recommend this bank to others	7 (6.6)	31 (29.2)	23 (21.7)	24 (22.6)	21 (19.8)	3.2	1.24
d) You feel appreciated by the services of this bank.	7 (6.6)	25 (23.6)	24 (22.6)	41 (38.7)	9 (8.5)	3.19	1.09
e) you would not move to another bank for the same service?	15 (14.2)	29 (27.4)	16 (15.1)	30 (28.3)	16 (15.1)	3.03	1.32
f)you wish to be identified with this bank	14 (13.2)	24 (22.6)	24 (22.6)	30 (28.3)	14 13.2)	3.06	1.25

The Table 4.6 also show that the lowest mean rank was on "moving to another bank for the same service (3.03), standard deviation is 1.32. The findings may mean that customers are not necessarily ready to move to other banks for similar service probably because of the cost of switching to another bank. This cost may include time taken to establish a good relationship with a new banker; services in banks are largely homogenous together with banking products and

channels. Therefore it is easier to live with the imperfect situation in the hope that things may change soon.

4.5.6 Customer Satisfaction as a moderator

Customer satisfaction is an antecedent to customer loyalty. A customer who is satisfied is the customer expected to be loyal but not necessarily all those satisfied customers will be loyal. This factor was included in the study to examine how it moderates the effects of service quality on customer loyalty. It should be understood that a customer may be loyal to a brand of product or service without necessarily being satisfied with the product of service. This is because satisfaction can be both physiological and psychological. Therefore for psychological reasons, a customer may remain loyal to a service or product since satisfaction is a complex construct to define or even measure accurately for each customer.

Table 4.7 contains statistics for customer satisfaction for each item as derived from the descriptive analysis. The mean and standard deviation is used to interpret the results and make a conclusion.

Table 4. 8 Descriptive statistics for Customer satisfaction

Statement	1	2	3	4	5	mean	SD
My main bank delivers to my expectations	23 (21.7)	32 (30.2)	27 (25.5)	12 (11.2)	12 (11.2)	2.97	1.09
I am satisfied with the services provided by my main bank	12 (11.3)	19 (17.9)	24 (22.6)	36 (34)	15 (14.2)	3.31	1.12
I am satisfied with the products offered by my main bank	8 (7.5)	17 (16)	40 (37.7)	27 (25.5)	14 (13.2)	3.27	0.99
My main bank is very convenient in fulfilling my banking needs	17 (16)	14 (13.2)	31 (29.2)	24 (22.6)	20 (18.9)	3.13	1.35
	13	30	29	16	18	3.04	1.18

I am likely to seek to use the services other banks if not satisfied with my main bank	(12.3)	(28.3)	(27.4)	(15.1)	(17)		
Based on my satisfaction experience with my main bank I would positively recommend it to another person	16 (15.1)	14 (13.2)	18 (17)	38 (35.8)	20 (18.9)	3.33	1.32

Customer satisfaction was highest for those who were "satisfied with the service provided by your main bank" with a mean rank of 3.31 and standard deviation of 1.12. This is followed by "positive referral or recommendation to another person". The lowest mean rank was on the bank "delivering on expectations" which had a rank of 2.97 (sd=1.09). Hence while the bank provide products and services that are satisfactory, they need to meet and even exceed customer expectations. The gap between performance and expectation is large and could widen further if immediate steps are not taken to narrow it so as to increase customer loyalty.

Overall bank customers sampled seem to have fairly agreed on the quality of services provided by banks as ranging from barely satisfactory to good. The mean rank for all the quality elements are estimated to be about 3.0 from a possible high of 5.0. Therefore commercial banks still have some space to cover towards making their customers to become totally loyal through the quality-satisfaction- loyalty continuum.

The physical facilities need better lighting and more modern equipment required, interaction, quality need to improve in terms of promises and delivery times, empathy concerns should focus on providing a more focused attention to specific customer needs while reliability should focus on providing dependable services as promised. The banks have to deliver to the expectations of customers in order to increase satisfaction that shall increase the likelihood of customer loyalty.
It appears all the banking institutions did not perform significant different from each other although a few had worse off situation. While competition is now very intense for revenues and customers, declining profit margins may not allow them to spend much on their physical outlook and ambience although this could potentially attract more customers and revenues.

4.6 Correlation statistics

Correlation statistics in Table 4.9 belong to a group of statistical tools used to determine the nature and strength of association between two or more variables. This test is conducted within and between key variables of study. A low correlation coefficient between the variables defining service quality e.g. <0.5 would be good since multicollinearity problem would be solved. However, a high coeffienct (>0.3) between the service quality dimensions and customer loyalty is expected. At the 0.05 level of significance a Pearsonian correlation coefficient between service environment and customer loyalty indicates a strong (0.749) positive relationship which is also statistically significant (P=0.0005) this result is consistent with that by NSia and Asantewa (nd) on the effect of service quality on customer retention among Ghanaian banks which returned a coefficient of 0.778 for tangibility.

Customer retention is closely related to customer loyalty because only loyal customers would easily be retained by a trusted and satisfying service provider. Karambu (2015) also realized similar results with the family bank in Kenya and so did Rousan and Mohammed (2010) in their study of the relationship between service quality and customer loyalty in the hotel industry in Jordan. Ahmad et al (2016) in Pakistan, Osman et al (2015) in Malaysian commercial banks realized stronger relationship between service quality (physical facilities) and customer loyalty. However Kheng (2010) arrived at opposite results that physical facilities were not significantly related to customer loyalty.

Table 4. 9 Correlation Matrix

		Service Environment	Interaction Quality	Empathy	Reliability	Customer loyalty
Service Environment	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	106				
Interaction Quality	Pearson Correlation	.451**	1			
		45				

	Sig. (2-tailed)	.000				
	N	106	106			
Empathy	Pearson Correlation	.231*	.438**	1		
	Sig. (2-tailed)	.022	.000			
	N	104	106	106		
Reliability	Pearson Correlation	.354**	.504**	.414**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	104	104	104	104	
Customer loyalty	Pearson Correlation	.749**	.402**	.307	.440**	1
	Sig. (2-tailed)	.000	.000	.001	.000	
	N	106	106	106	104	106

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

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

The results of analysis for the correlation coefficient between interaction quality also referred to as responsiveness in other studies and customer loyalty show a moderating strong association (r=0.402) but significantly positive correlation (p=0.000). This finding does not differ significantly from what other authors found out like Karambu (2015) who arrived at a stronger association that is positive in her study of the service quality and customer loyalty among Family bank customers in Kenya. To the contrary Kheng (2010) in his study of Malaysian bank customers arrived at insignificant relationship between responsiveness and customer loyalty. Muhammed (2013) findings were consistent with the study findings regarding significance of interaction quality on customer loyalty and overall role of service quality and influencing customer loyalty. The results also agree with NSia and Asentewah (n.d) who realized a strong association between responsiveness and customer loyalty (r=0.818).

The study also arrived at a positive and significant result for empathy and reliability (0.307 and 0.44 respectively) in relation to customer loyalty. This in interpreted to mean that reliability rank higher than empathy when correlated with customer loyalty. The association between the factors and loyalty is however moderate and significant in the equation. According to Manduku (2013) only reliability was positive and significantly related to customer loyalty.

Ahmadad Ahmad (2016) realized low correlation coefficient between service quality and customer satisfaction which is an antecedent for customer loyalty. Therefore the study contends that service quality is positively and significantly related with customer loyalty though difference in the strength of relationship differs for the dimensions of service quality. Empathy has the lowest correlation with loyalty which signifies less concern placed on this factor by customers of commercial banks in Nakuru town.

4.7 Regression analysis

A regression analysis (Ordinary least square regression) is carried out on the data collected from 106 respondents to determine how well service environment, interaction quality, empathy and reliability predict changes in customer loyalty. The regression equation for study is of the form;

$$Y = \beta_o + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \varepsilon \quad (1)$$

Where x_1 = service environment

X_2 = interaction quality

X_3 = empathy

X_4 = reliability

β_1-β_4 = slope coefficient

β_0 = intercept coefficient

ε= error term

Since the data did not violate some of the key assumptions of classical linear regression from the preliminary tests, A linear regression tool (Multiple OLS regression) was deployed to test predictive power of the model at the 0.05 level of significance. The results of regression analysis are as presented in the estimated equation below:

$$\ddot{Y} = 10.72 + 0.481\ x_1 + 0.23\ x_2 + 0.02\ x_3 + 0.062\ x_4 \quad (2)$$

t 6.72 10.21 3.43 2.03 1.82

p (0.000) (0.001) (0.046) (0.049) (0.842)

$R^2 = 0.578$

DW = 1.421

F= 34.6, P = 0.000, $df_1 = 4$, $df_2 = 101$

The estimated regression equation (2) indicates that service environment, interaction quality and empathy had positive and significant predictive power on customer loyalty. However reliability failed to significantly predict customer loyalty since the P value was higher (0.842). The interpretation of the regression equation (2) is that when service environment is improved by a unit, then customer loyalty is likely to rise by 0.481 units. The positive coefficient is consistent with extant literature (t= 10.21, p= 0.001). Therefore commercial banks in Nakuru town may improve customer loyalty of customers by improving the service environment which include providing sufficient lighting, ventilation and modernizing banking hall facilities. Bank staff should also look smart and the queue management made easy and fast. These issues carry more premiums for the customer. Following closely is the interaction quality or responsiveness which according to the estimated equation had a positive coefficient that is also statistically significant. The slope coefficient of 0.23 mean that by increasing the interaction quality between bank staff and customers by a level or unit, customer loyalty is likely to improve by 0.23 units or nearly 23%. Improvement of interaction quality relate to ensuring provision of service as promised, timely service, showing willingness to help customers and being courteous and ready to help customers.

Thirdly, showing more empathy toward customers is linked to improvement in customer loyalty by 0.02 units. The relationship is positive and significant as explained by other authors and literature. Bank management would do well if they ensure employees are kind to their customers and pay particular attention to their specific needs.

The same equation shows that reliability dimension does not predict customer loyalty since the coefficient 0.062 has a larger P value (P= 0.842). Thus reliability can be ignored as a predictor of

customer loyalty. A coefficient of multiple determinations which depicts the goodness of fit for the model indicate that the multiple regression model with three dimensions of service environment, interaction quality and empathy collectively explain 0.578 or 57.8 percent of the changes in customer loyalty. The model was valid since the F-value is high of significant (F=34). The other proportion 42.4 percent is explained by other factor not captured in this study.

A Durbin-Watson value of 1.421 means the residuals in the regression equals were not serially correlated which is an assumption to uphold in regression analysis. The value is not that much displaced from the expected value of 2.0. Therefore the coefficient values computed for the model are unbiased and efficient.

The model is also seen as valid since it fits the data well with an F-value of 34.6 df1=4 and df2-101. That is to say the three service quality dimensions of service environment, interaction quality and empathy included in the model are valid factors in the estimated regression equation.

4.8 Kruskal –Wallis test

The difference test was conducted on the mean ranks of data across the six banks to test whether any of the differences observed are significant so that it may be concluded service quality practices separate performance. The result is presented in the Table 4.10 indicate that the chi-square value 6.487 was not statistically different from the critical value. Therefore customer loyalty performance across the banks is not different perhaps because differences in the quality of service provided between banks are not statistically different.

Table 4. 10 Kruskal-Walis Test for Difference in Performance

Ranks

	Name of bank	N	Mean Rank
Customer loyalty	Barclays Bank	16	60.66
	Cooperative bank	18	43.14
	Standard charterd bank	17	56.53
	Equity bank	17	64.79
	National Bank	17	46.38
	KCB	21	51.10
	Total	106	

Test Statistics[a,b]	
	Customer loyalty sum
Chi-Square	6.487
df	5
Asymp. Sig.	.262

a. Kruskal Wallis Test

b. Grouping Variable: Name of bank

4.9. Summary

The questionnaire data collected from 106 customers at the six major banks was analyzed descriptively and inferentially using SPSS 23. From the key findings, service quality dimensions namely service environment, interaction quality, empathy and reliability performance is satisfactory though more can be done to improve the situation. A correlation analysis indicates that service environment is strongly and positively associated with customer loyalty 0.7). This is followed by reliability which has a fairly strong and positive (0.44) association with customer loyalty. The third factor in terms of strength of association is interaction quality with a moderately strong relationship (r= 0.402). Lastly empathy has a weak positive (0.3) relationship with customer loyalty but this relationship is also statistically significant.

When the dimensions are tested for predictive power service quality has the strongest predictive ability for customer loyalty, followed by interaction quality then empathy and lastly reliability which is not statistically significant at the 0.05 level of significance. A direct relationship exist between each of the factors/dimension and customer loyalty. The model estimated show that up to 57.8 percent of the variation in customer loyalty is attributable to service environment, interaction quality, empathy and reliability. Osman et al (2015) model explained 61 percent of the change in customer loyalty, Ahmad et al (2016) study in Pakistan indicated service quality explaining 56.8 percent of customer loyalty.

Gaps have been noted among the service environment items relating to lighting, facilities not looking quite modern, poor ventilation and adequate space for comfort. These areas need

adequate attention to stem the risk of loss of customer and business. Interaction quality is deficient in the areas of not following up on promises, inadequate staff to service a large number of customers and increasing speed of service. This also require quick response to improve customer loyalty. Banking channels like ATMs and mobile banking were noted to be unreliable and consequently action is needed to reverse this trend. Empathy as a factor is lacking in providing personal attention and failing to understand customer concerns. In sum while the service quality dimension are important to improving customer loyalty among bank customers in Nakuru town, only three dimensions service quality, interaction quality, and empathy have significant predictive ability on customer loyalty. Reliability failed the predictive test.

A difference test conducted on the ranked data reveal that the six banks performance based on customer loyalty is not significantly different. This means each bank may proceed with effort to improve quality to retain its customers and attract new customers but not existing customers.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1. Introduction

This chapter presents a summary of the findings realized from data analysis in the previous chapter. It then discusses the implication of the findings and contribution made to the literature on service quality. Finally, appropriate conclusions are made together with recommendations to improve the situation and areas of further research identified.

5.2. Key findings from the study

The study was designed as a correlation or predictive study to examine effects of service quality dimensions on customer loyalty among commercial banks in Nakuru town. Service quality can be leveraged as a strategy for competitive advantage in the financial services sector like commercial banks. The variables that define service quality are; service environment, interaction quality also captured by other authors as responsiveness and assurance, empathy and reliability. These variables were studied using a correlation approach and results obtained so far are as follows;

5.2.1. Service environment and customer loyalty.

Service environment which describes the physical appearance of the banks in both human and material form is positively and significantly related to customer loyalty. The association is quite strong towering above the other factors. It was also observed that the physical environment of the bank also plays a major role in predicting how much customer loyalty may change. Therefore a focus on the space, comfort, ventilation, lighting, furniture and documentation is necessary to improve the satisfaction of customers about their banking experience and hence increase customer loyalty. A good service environment when created in all its aspects has the potential of improving customer loyalty by up to 50 percent all else remaining the same. The coefficient between service environment and customer loyalty is very strong (r=0.7). This result is consistent with that by NSia and Asanterial (nd) on the effect of service quality on customer retention among Ghanaian banks which returned a coefficient of 0.778 for tangibility. Other studies (Ahmad & Ahmad 2016) involving the banking sector in Pakistan realized low

correlation coefficient (0.229) between service quality and customer satisfaction but fairly stronger association between customer satisfaction and customer loyalty (0.568). However, Kheng et al (2010) concluded that tangibility had no significant impact on loyalty among bank customers in Malaysia.

5.2.2. Interaction quality and customer loyalty

Interaction quality is considered very important in influencing customer loyalty. The dimension had a fairly strong (r=0.4) effect on customer loyalty. It is described by, courtesy timelines, willingness to help and performing services as promised while bank customers perceive there qualities as satisfactory. There is need to improve them so as to enhance customer loyalty. Interaction quality is equally a good predictor of customer loyalty since the coefficient is positive and significant at the 0.05 level of significance. For every unit increase in interaction quality, then it affects customer loyalty by increasing it by 0.23 units or up to nearly 25%. Iteraction quality as an important dimension of service quality has been supported by Karambu (2015) in her study of servive quality and customer loyalty in Family bank in Kenya. Muhamed (2013**)** on his part concluded in a study of banks strategy for attracting and retaining loyal customers that satisfaction, loyalty, closeness, commitment, transparency, communication and superior service was linked to customer attraction and retention in Jordan.

5.2.3. Empathy and customer loyalty

The effect of empathy on customer loyalty as observed from the analysis is positive, significant but weak (r=0.3). This means not much impact can be expected on customer loyalty from promoting empathy in bank service provision. However it remains a key determinant of quality service from the data analyzed. The ability to predict customer loyalty through empathy is also positive and significant since about 2 percent of the changes in loyalty is attributable to variation in empathy. The issues that describe empathy include focusing attention on personal concerns, convenient working hours, and kindness, understanding customer concerns and specific needs and attending to customers quickly. The weakest link when it comes to empathy was providing personal attention and attending to customers specific needs. This finding while theoretically plausible, disagrees with Nsia and Asantewaah (n.d) in their study of customer retention among

banks in Ghana. The coefficient of correlation for empathy was very strong(r =0.88) compared to the findings here. This may be due to the fact that all banks were involved in Ghana while only a section of them are studied here.

5.2.4 Reliability and customer loyalty

Reliability of banking services is important to customer satisfaction and loyalty from correlation analysis already conducted. The association between reliability and customer loyalty was fairly strong (0.44) which is consistent with Manduku (2013) who studied determinants of customer loyalty in the retail banking sector in Kenya. This was the only variable that predicted loyalty in his model. Contrary to the findings by Manduku (2013) reliability factor did not feature as a significant predictor of customer loyalty. Therefore this area is puzzling and would require further exploration but result could be attributable to the sample characteristic used for this study. While this study sampled only large banks in Kenya, Manduku used all banks in the country.

Overall model fitness was satisfactory with the three factors, service environment, interaction quality and empathy explaining 57.8 percent of the changes in customer loyalty. A look at the variance ration (F ratio) one finds the model to be valid thus supporting literature while all the signs for the coefficients are also positive as expected. A Durbin-Watson value of 1.421 indicate no serious auto-correlation problem with the data residuals at the 0.05 level of significance.

5.3. Conclusion

The researcher therefore makes the following conclusion drawing from the findings of the study.

i. Service quality is an important driver of competitive advantage in the banking industry. It may well be leveraged to differentiate performance of banks since little can be achieved from trying to differentiate products of banks because they are largely uniform or similar. SERVQUAL model is applicable to as a competitive model for major banks in Nakuru town. Performance of the dimensions is asymmetric in the sense that one dimension (Reliability) failed as a predictor of customer loyalty. not uniform and therefore Service quality differentiation may be occur in real or psychological terms but the benefits are real; that is more satisfied and loyal

customer. Branding is one way to achieve real or psychological differentiation among banks but it stems from favorable customer experience in the past. Attention must therefore be given to improving the physical environment, quality of interaction and empathy.

ii. The service environment surrounding major banks in Nakuru town require some attention especially in the area of lighting, modernization of facilities, ventilation and overall ambience of the banking halls. Kibira (2015) argue that the service environment in the banking industry play a critical role in attracting and retaining customers. Modern looking facilities that are well aerated would easily attract customers due to the comfort it provides. However in a study by Kheng et al (2010) tangibility which is the physical appearance of facilities of banks in Malaysia was not significantly related to customer loyalty. This may be attributable to customer taste and preference which may differ across societies hence similar factors may have dissimilar effects in different societies.

iii. Interaction quality between bank staff and their customers in Nakuru town is not quite good. Bank managers and staff need to follow up on the promises made, providing timely service and increasing number of service points to improve interaction quality. A customer cares about how much time he/she spends in a banking hall. Therefore the faster the service, the better it is for the customer. A fairly strong association between quality of interaction and loyalty mean better interaction is necessarily between bank staff and customers. Nsia and Asantewah (nd) supported this quality for bank customers in Ghana. So did Karambu (2015) and Kabira (2015) support it in Kenya's Family Bank and commercial banks in Kenya respectively.

iv. Empathy was described as the personal attention the bank provides its customers. The factor performed fairly well as a determinant of customer loyalty. It is also a significant predictor of loyalty although only a weak link exists between empathy and customer loyalty. Therefore Kenya's banks in the town need to increasingly provide more personalized attention, show more kindness and try to understand customer concerns. This is what Manduku (2013) realized from his study of the retail bank in

Kenya. Mohamed (2013) similarly support this finding from his study of retail banking in Jordan.

v. Reliability as a dimension of quality service has a fairly strong association with customer loyalty (0.44) but a poor predictor of loyalty among commercial bank customers in Nakuru town. Therefore less focus may be given to this aspect though it remains a significant variable in service quality debate. Perhaps further study is necessary in this area.

vi. The moderator-customer satisfaction did not contribute significantly to the relationship between service quality and customer loyalty. This coefficient of determination upon introduction of this moderator in the equation was 0.56 or 56 percent. The conclusion is thus no significant effect was noticed on the relationship between service quality and customer loyal by introducing the moderator.

vii. A Kruskal-Wallis test was used to test the difference between the mean ranks of the service quality factors based on the customer loyalty performance. This test of independent sample was used because scores were ranked data. The test result returned a non-significant value of (χ^2=6.48, p=0.262) with the conclusion being there is no significant difference in the customer loyalty levels between customers of the various banks examined in this study. Hence performance of each sampled bank based on loyalty of its customers does not differ significantly at the 0.05 level of significance. This may be because the major banks have invested heavily on customer service comfort and experience and hence may not differ much in terms of the experience provided.

5.4. Recommendations from study

i. Service environment must be improved for all the banks since none had an excellent score of 5.0. This would then increase customers' satisfaction and consequently loyalty particularly through modernizing facilities that may still be lagging behind. Coop bank had the weakest rating on this dimension while Barclays fared well. The lighting of the facilities and ventilations also require improvements. Other aspects like space and furniture can also be enhanced for better customer's experience.

ii. Interaction quality especially for KCB was not very good. The bank staff and management need to review how they handle their customer with the view to improve quality of interaction by listening and acting as promised. Overall the banks require some improvements namely timely service, increasing number of service points and following on promises made. Equity bank scored well in this dimension but would still need to do more. This will promote satisfaction and loyalty and possibly promote business and profits.

iii. That bank staff need to be more empathetic especially coop bank staff to its customers since each customer is unique and has unique concerns, there is more need for bank staff to increase kindness and provide more personal attention. This is necessary because empathy is a significantly associated with customer loyalty and is also a predictor of changes in customer loyalty according to study findings. Kenya commercial bank (KCB) did well overall on this factor but that still require further improvement. Empathy also requires that bank staff pay attention to specific customers' needs.

iv. Standard chartered bank was considered least reliable bank of all the six banks sampled while KCB customers were most optimistic about the banks reliability. While reliability factor fairly strongly correlated with customer loyalty, it failed to stand out as a predictor of customer loyalty. It should therefore be further explored why results are inconsistent with another study by Manduku (2013) involving all banks in Kenya the factor was significant in predicting customer loyalty.

5.5. Suggestion for further study

i. Carry out further study on why bank customers of major banks in Nakuru do not consider bank service reliability as a significant predictor of customer loyalty.

ii. The reason behind service quality indifference among customers of major banks in Nakuru town.

iii. Is service quality differentiation strategy more important for small and medium banks than large commercial banks in Nakuru town?

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APPENDIX I

WORK PLAN

Activity	Period in Months (Jan- June 2019).					
	1	2	3	4	5	6
Problem formulation						
Literature search and review						
Proposal development						
Defend the proposal at the department						
Pilot testing the data collection tools						
Collect data						
Analyze data						
Write the final project report						
Hand the report to the supervisor						

APPENDIX III

INTRODUCTION LETTER

April 2019

Dear Respondent

RE; REQUEST FOR RESEARCH DATA

I am graduate student at St Paul's university pursuing a Masters degree in Business Administration (MBA) degree with a major in strategic management and leadership. In partial fulfillment of the requirement for the degree, I am carrying out a research on "**EFFECT OF SERVICE QUALITY DIFFERENTIATION STRATEGY ON CUSTOMER LOYALTY AMONG COMMERCIAL BANKS IN NAKURU TOWN, KENYA"**

To achieve this, you have been randomly selected to participate in survey .Filling of the questionnaire has been estimated that it will take less than fifteen (15) minutes of your time .i would like to assure you that the information you will give will be treated as confidential and will only be used for the purpose of this study. Upon completion of the study, the findings will be availed to you as per your request. Kindly respond as honestly and objectively as possible.

Your assistance and cooperation will be highly appreciated

Thank you in advance

Yours faithfully

GRACE KABAA

APPENDIX IV

CUSTOMER QUESTIONNAIRE

You have been selected from the many customers of this bank to participate in a customer survey to measure your level of satisfaction with the quality of service provided by the bank. Please spare a few minutes to fill in the questionnaire honestly by indicating your opinion on each question using a tick or cross or any other clear mark.

SECTION A

General information

1. Name of bank…….

i) Barclays bank
ii) Cooperative bank
iii) Standard chattered
iv) Equity bank
v) National bank
vi) Kenya Commercial bank

2. Category of customer
i) individual
ii) Corporate

3. Age category
i) under 30 years
ii) 30-40 years
iii) 41-50 years
iv) Over 50 years

4. Education level
i) Form four
ii) Form six
iii) Bachelors
iv) Masters
v) PhD
vi) Other specify……

SECTION B

Please mark against each statement your opinion point from the scale provided: 1- Strongly Disagree to 5- strongly Agree

5. Service Environment

The appearance of the bank, physical facilities, equipment, personnel and communication materials.

Statement/scale	1	2	3	4	5
a)The bank has modern looking facilities					
b) The bank's physical features are visually appealing.					
c) The bank's reception desk employees are smart dressed.					
d) documents associated with the service provided are visually appealing at the bank.					
e)Bank provides comfortable experience					
f)Banking hall is well ventilated					
g)Banking hall has good lighting					
h) Bank provides adequate space for customer comfort					

e) In your own opinion, what should be done to improve the service environment in this bank?

.....

.....

6. Interaction quality/ Responsiveness.

The banks willingness to help customers and provide prompt service.

Statement/ Scale	1	2	3	4	5
a) Bank employees tell you exactly when the services will be performed.					
b) Bank employees give you timely service.					
c) Bank employees are always willing to help you.					

d) Employees in the bank are always willing to assist customers request.					
e)Bank employees are always available to help					
f)the bank employees courteous					

e) How can the interaction quality between the bank and customers be enhanced in your opinion?

.....

.....

7. Empathy

Personal attention the bank provides its customers.

Statement/ scale	1	2	3	4	5
a) The bank gives you personal attention.					
b) The banks operating hours are convenient to all its customers.					
c) The bank has employees who are kind.					
d) The bank understands customer concerns.					
e) The employees of the bank pay attention to customers specific needs					
f)customer concerns are attended to quickly					
g)the bank always place the customer first					

f) What can the bank do to show it truly cares about the customer?

……

……

8. Reliability

The bank's ability to perform the promised service dependably and accurately

Statement/ scale	1	2	3	4	5
a) When the bank promises to do something by a certain time, it does so.					
b) When you have a problem, the bank shows a sincere interest in solving it.					
c) The bank performs the service right the first time.					
d) The bank provides its service at the time it promises to do so.					

e) The bank insists on error free records.					
f)Bank services are always dependable					
g)Bank services are fast and accurate.					

f) What should the bank do to demonstrate that it is indeed a dependable bank?

……

……

9. Customer loyalty

Your level of commitment to the services offered by this bank.

Statement /scale	1	2	3	4	**5**
a) You visit the bank more often for their service					
b) You carry out more transactions through this bank					
c) You would recommend this bank to others					
d) You feel appreciated by the services of this bank.					
e)you would not move to another bank for the same service?					
f)you wish to be identified with this bank					

e) What can the bank do to increase your level of loyalty to their service?

……

……

10 Customer Satisfaction

Statement	**1**	**2**	**3**	**4**	**5**
My main bank delivers to my expectations					
I am satisfied with the services provided by my main bank					

I am satisfied with the products offered by my main bank					
My main bank is very convenient in fulfilling my banking needs					
I am likely to seek to use the services other banks if not satisfied with my main bank					
High bank charges would prevent me from joining another bank even though it was my preferred bank					
Based on my satisfaction experience with my main bank I would positively recommend it to another person					

10. In your own opinion, how can the bank improve your level of satisfaction with the quality of service?.....

.....

....