RELATIONSHIP BETWEEN SERVICE QUALITY AND CUSTOMER SATISFACTION IN RETAIL BANKING IN KENYA

BY

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DECLARATION

I, the undersigned, hereby declare that this is my original work and has not been presented to any institution or university other than University of Nairobi for academic credit. I further declare that I followed all the applicable ethical guidelines in conducting the research.

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The research project has been submitted for examination with my approval as University supervisor.

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DEDICATION

I dedicate this project to my loving Dad and Mum Mr & Mrs Joseph Macharia Ruku, my brother Anthony Mwangi, my sisters Naomi Wairimu, Mary Wangari, Tabitha Waithira and my cousin Joseph Muchiri. My friends who were there for me and gave me moral support Bakari, Lucy, Linnet, Kabena, Esther, Lizz and Kamau. Thank you for your support, inspiration and patience. I couldn’t have made it this far without you and above all I thank Almighty God for giving me good health.

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ABBREVIATIONS AND ACRONYMS

CAP	Chapter
CBK	Central bank of Kenya
CS	Customer satisfaction
DS	Dissatisfaction
GSM	Global system for mobile communications
KCB	Kenya Commercial Bank
SACCOs	Savings and Credit Cooperative Organizations
SERVQUAL	Service Quality
SQM	Strategic Quality Management

ABSTRACT

This study had the overall objective of establishing the relationship between service quality and customer satisfaction in retail banking from banking institutions perspective in Kenya. The study was carried out through a census of the entire banking industry among the commercial banks so as to get their views on perceptions on what they consider quality service and whether there was any relationship between quality of service offered by banks and customer satisfaction. Primary data was collected from the respondents through questionnaires and key informants interviews. A total of 43 questionnaires were sent and administered out of which 30 responded and 13 did not respond giving a response rate of 69.76% and a non-response rate of 30.24%.This was a credible response and adequate to get views on the banking industry to address the study objectives. Secondary data from observation, management reports and a few customers were used to verify and validate the primary data. The data collected was analyzed using content analysis to present information pertaining to the study objective. Research findings revealed that there was clear indication that happy clients will tell other potential clients about the services they get from the bank hence help recruit more members. These results were consistent with literature as pointed out by Kotler and Keller (2006) that customer satisfaction determines the success or failure of a business and customers are very sensitive to the quality of service that they receive from the service providers .The results show that they is a positive and significant relationship between quality of service and customer satisfaction similar to those observations made by Lee et al (2000), Gilbert and Veloutsou (2006), Sulieman,(2011) and Buttle (1996) who suggested that service quality leads to satisfaction. The study recommends that banks incorporate the views of the clients into the quality of service in accordance to the wants of customers and this would go a long way in satisfying them. It further recommends that the banks have to offer quality service to their customers. In doing so more customers would join and banks will realize improved business performance. Banks in Kenya have no option but to be of world class standard, committed to excellence in customers' satisfaction and to play a major role in growing and diversifying financial sector as observed by Balachandran, (2005).The research findings therefore addressed the questions under investigation and would be practical to the banking sector as they strive to serve customers and grow their business.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

In today's marketing environment delivering high quality service is the key for a sustainable competitive advantage, (Gronroos 2000). Customer satisfaction has a positive effect on organization profitability in that satisfied customers form the foundation of any successful business because it leads to repeat purchases, brand loyalty and retention, (Kotler 2006). Satisfied customers share their experiences with other people influencing them either positively or negatively. According to (Yang and Fang 2004), dissatisfied customers are more likely to tell ten other people of their experience with the product or service.

Heider's (1958) balance theory is applied to explain how service organizations, service providers and consumer interrelationships influence service quality. Propositions are offered pertaining to how and why positive or negative relationships among the parties in this triad are developed and the consequences of these relationships on service quality, effective outcomes, and withdrawal behaviors. The service quality model or the GAP model developed by a group of authors – Parasuraman, Zeithaml and Berry at Texas and North Carolina in 1985 highlights the main requirements for delivering high service quality, it identifies five gaps that cause unsuccessful delivery. The Service Quality theory by Oliver (1980), predicts that clients will judge quality as low, if performance does not meet their expectations and quality increases as performance exceeds expectation hence customers expectations serve the foundation on which service quality will be evaluated by customers. The theory of constraint by Goldratt helps in identifying the weakest elements of processes that occur within organizations as constraints and has suggested five steps focusing on processes for documenting and defining service quality.

Banks nowadays have to be of world class standard, committed to excellence in customers’ satisfaction and to play a major role in the growing and diversifying financial sector (Balachandran, 2005). Retail banking is when a bank executes transactions directly with customers rather than corporations or other banks. Services offered include savings, transactional accounts, mortgages, personal loans, debit cards and credit cards. The term may also be used to refer to a division of a bank dealing with retail customers and can also be termed as personal banking services. For a bank to be competitive in the market place they should anticipate and respond to the changing interests and demands of different customers. The CBK ensures the proper functioning of the Kenyan financial system, the liquidity in the country and the solvency of the Kenyan shilling. To address issues that affect the Banking industry in Kenya, banks have come together and formed a forum under the Kenya Bankers Association.

1.1.1 Service quality

Quality of service given by service organizations means different things to different people. To some authors the term means satisfaction and for others it implies a relative impression of the organization and its services, Heizer and Render (2006). From an operations perspective, service quality means meeting the specification for the services or quality of the service which the organization delivers. Strategic quality management refers to a quest for quality in an organization and consists of three key elements: continuous improvement, involvement of everyone in the organization and customer satisfaction as stated by; Deming (1986), Dale, (2003) and Hill, (2005). SQM expands the traditional view of quality from the final product or service to the quality of every aspect of the process that provides the service, Stevenson (2005).

Most researchers suggest that customers should be incorporated in the production process for the view of what they need, want or dislike in the entire process of production says Gronroos (2000). (Kotler and Keller 2006) agrees that this suggestion is laudable because it is better to hear from the customers rather than trying to think for them. In the changing banking scenario of 21^{st} century, banks must have a vital identity to provide excellent services. Customers have also accurately demanded globally quality services from banks. Banks have recognized the need to meet customers' aspirations. Consequently service quality is a critical motivating force to drive the bank up in the high technology ladder. The soundness of the banking sector is of dominant importance because it is a main component of the Kenyan financial sector (CBK, 2012).

1.1.2 Customer satisfaction

Customer satisfaction is a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance or outcome in relation to his/her expectations says Kotler, (1999). For customer satisfaction to be high, promises and expectations must be met. This involves the organization's ability to understand customer expectations and to do it right the first time (DIRFT). In today's marketing environment, the customer has become the centre of all business decision right from the conception to delivery of a product/service says Gronroos (2000). Customer centric marketing policies and processes are really important. The antecedents of the recent status of the customer in marketing and business operations are the intense global competition, emergence of service driven economies, increasing customer awareness and sophistication and advancement in information technology (Hamdallah and Evelyn, 2010).

Many researchers and academicians highlight the importance of customer satisfaction. Much empirical evidence also shows the positive connection between customer satisfaction and service quality (Cook, 2008). Quality is one of the many dimensions on which satisfaction is based and satisfaction is one potential influence on future quality perceptions, Clemes, (2008). Service quality is an important tool to measure customer satisfaction, Hazlina et al, (2011). Empirical studies show that the quality of service offered is related to overall satisfaction of the customer. According to Hansemark and Albinson (2004) satisfaction is an overall customer attitude towards a service provider or an emotional reaction to the difference between what customers anticipate and what they receive regarding fulfillment of some needs, goals or desires."

It is now common knowledge that the success of every business organization hinges on how their customers are served and how the customers evaluate and perceive such services. The nature of the service may not matter but the value customers place on such service is of significant importance in customer's acquisition and retention. Customer-centric marketing philosophy has received high level of attention from marketing practitioners and academicians. Business organizations have embraced this philosophy and they are practicing it today. Kotler (2006) observed that business organizations are now striving to understand their customers so that they could build long-term profitable relationship with them.

Most of the researchers suggest the incorporation of customers view of what they need, want and dislike (complaints) in the entire process of production Gronroos (2000); Kotler and Keller (2006). This suggestion is laudable because it is better to hear from the customers rather than trying to think for them. The ultimate aim of all marketing activities in today's corporate world is to acquire and retain profitable customers. In practice, it is believed that it is six times cheaper to retain existing customers than to acquire new customers in today's intensive competitive business environment, Reichheld (1996).

It is empirically indicated that customer retention is influenced by three interdependent factors: service quality and value influence customer satisfaction (CS) or dissatisfaction (DS) (Thompson 2004), customer satisfaction or dissatisfaction influence customer loyalty and according to Reichheld (1996), customer retention is influenced or determined by the level of customer loyalty. Since retaining existing customers is much cheaper than acquiring new ones, perceived services quality, customer satisfaction are crucial success factors for every business organization.

1.1.3 Service quality and customer satisfaction

Customer satisfaction is the outcome felt by those that have experienced a company's performance that have fulfilled their expectations. In the past products were determinants of business success. The most successful firms were firms that were able to produce high quality products. Today quality products are still crucial in business success .However the quality issues of the past are quite different from the quality issues of today. In the past quality was defined and determined from the producers or service providers perspectives with little or no consideration of the consumer expectations. Customers were perceived not to know what they want and therefore accept what is available. This was the era of mass marketing. The mass marketing technique was effective that time because competition was less and consumers were not as sophisticated and informed as today.

In the literature of customer centric marketing, customer perceived quality is the most influential determinant of customer satisfaction according to Thompson (2004), Gronros et al (1996), Dyche (2001), (Yals and Knox, 2001) and Stone, (2000). Better understanding of customer’s perception of service quality in the banking industry and the drivers of such perceptions will be a sound basis for continuous improvement in the quality of service offered to customers, customer satisfaction and customer retention in the industry.

1.1.4 Retail banking in Kenya

The banking industry in Kenya is regulated and governed by the Central Bank of Kenya Act (CBK), Companies Act and Banking Act (cap 488). These Acts are used together with the prudential guidelines which Central bank of Kenya issues from time to time. In 1995 the exchange controls were lifted after the liberalization of the banking in Kenya. Central Bank of Kenya is tasked with formulating and implementation of monetary and fiscal policies. Central bank is the lender of last resort in Kenya and is the banker to all other banks. CBK data shows that 6513 agents of retail banking had been approved in 2011. For retail clients, this competition was expected to enhance further access and the range of services available even in remote areas. Kenya has a population of 43 commercial banks and this research study will focus on all the banks.

Kenyan Banks have realized tremendous growth in the last five years and have expanded to the East African region. The banking industry in Kenya has also adopted automation, moving from the traditional banking to better meet the growing complex needs of their customer and globalization challenges. Equity bank for example was working on a scoring system to disburse loans through agents without any time spent in a branch. On the other hand, other players like Safaricom reportedly had similar plans to base a scoring system on airtime purchases and usage and savings in the M-KESHO account.

There has been increased competition from local banks as well as international banks, some of which are new players in the country. This has served the Kenyan economy well as the customers and shareholder are the ones who have benefited the most. The main focus of this study is retail banking. According to business daily Sep, 2011, Equity bank had an impressive 39% of the total banking industry accounts as the bank's conversion and its phenomenon growth as a result of retail banking which have sharpened competition in the financial sector. More established players who initially ignored retail banking in favor of corporate banking re-entered the market thereby increasing competition.

1.2 Statement of the problem

Providing a good service is a major concern for all businesses especially those in the service industry since service quality cannot be measured. According to Gronroos (2000), customers have different perspectives of judging service quality and thus banks should focus their energies mainly on areas defined by customers as specific needs and wants. Kotler and Keller (2006) observed that customer satisfaction determines the success or failure of a business and customers are very sensitive to the quality of service that they receive from the service providers. Reichheld (1996) says that once a customer is dissatisfied with the services provided, may opt to turn away and never to return and most likely spread their bad experience to prospective customers thus discouraging them from dealing with the same bank. On the other hand a satisfied customer will bring more customers to the bank thus contributing to its success.

For a bank to be competitive in the market place they should anticipate and respond to the changing interests and demands of different customers as service organizations have difficulties in judging what a good service is and since different customers have different needs and wants at different times. A customer's expectation of a particular service is determined by factors such as recommendations, personal needs and past experiences. Expected service and the perceived service sometimes may not be equal thus leaving a gap. Managers of service providers must aim to minimize this gap.

Studies have been carried out on service quality. These among others include; Njoroge (2010) indicated that service quality has uncertain or even negative effects on customer satisfaction. Mwaniki (2011) who researched on customer satisfaction in

Kenyatta National Hospital highlighted that achieving high service quality and pursuing successful customer satisfaction level are highly dependent on top management support. Miriti (2011) reported that there is no association between top management support for quality and customer perceived value achieved. Thiongo (2011) indicated that a 90% improvement rate in customer relations operating procedures and financial performance is achieved due to customer satisfaction. Ndungu (2012), who researched on effects of service quality on customer satisfaction in the telecommunication industry, concluded that reliability, competence, responsiveness and access of service provider in service delivery contribute to customer satisfaction. Yator (2012) who researched on the effects of service quality in hospitality industry in Kenya indicated that service quality has a very strong correlation with customer satisfaction.

Conflicting research findings have been reported surrounding the effects of service quality on customer satisfaction. The above studies point out that customers' expectation on all the dimensions of service quality were not met in any of the service organizations. It is worth noting that none of the study was done in relation to retail banking in Kenya. This is the research gap that this study wants to address. What relation exists if any between quality service and customer satisfaction in retail banking in Kenya?

1.3 Research Objective

This study intends to establish the relationship between service quality and customer satisfaction in retail banking from banking institutions perspective.

1.4 Value of the study

The importance of this study lies on the fact that it will provide empirical information to stakeholders of banks, scholars and marketing professionals of the banking industry in Kenya.

The stakeholders of the banking industry refer to the management, shareholders, and directors of banks in Kenya. The findings of this study will provide them with empirical information on what customers expects in terms of service quality from banks as well as customer assessment of the quality of service they provide. It will also provide empirical information on heterogeneity of customers perceived service quality in terms of customer background. Thus management will be guided in their strategic decisions on customer acquisition, customer satisfaction, and customer retention. Shareholders and directors of banks in Kenya may also use such information as justification for their service quality decisions and policies that can be used in quality management.

To marketing professionals and scholars of marketing, the findings of this study will be a contribution to the existing literature and the debate on service quality in the banking industry. The findings of this study will also extend the understanding and clarity of customers' expectations and perceptions of service quality in the banking industry in Kenya. Marketing practitioners in other related service industries could therefore take clues from the findings and make better meaning of the situation in their industries or firms.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter explains the concept of service quality and customer satisfaction. It identifies the various factors that contribute to service quality and thus customer satisfaction. This chapter will review books, journals and other sources to unveil the various theories that have been advanced on service quality and customer satisfaction**.**

2.2 Service quality

In recent marketing literature the concept of service is used and defined in various perspectives by many scholars. A service is a commodity with no physical existence usually created and consumed at the same time. According to Gronroos, (2001) he described a service as a process resulting in an outcome in a partly simultaneous production and consumption process. This definition points to the fact that service production/provision and consumption are simultaneous activities. On the issue of a service being a commodity, Edvardson et al (2005) defined service as a component of the wider product concept. Service is a component of the wider concept of products that is limited to acts, deeds and efforts Lovelock, (2005). Lovelock and Wirtz (2007) indicated that, service is “time based” and the outcome of a service may result in desire change in consumer or any property of the consumer. Edvardsson et al (2005) indicated that not only a service provided for the benefit of another entity but it may also be for the benefit of the providing entity.

The above discussions have brought out some of the numerous characteristics of service. It could be deduced from the review that service is intangible, time based, and individualized. Apart from these characteristics (Grooth and Dye, 1999) identified perceptional dependence, non-return ability and needs-match uncertainty as some of the distinguishing qualities of service. Recent articles describe service with attributes such as inseparability, intangibility, heterogeneity, and more recent, “benefit not ownership” that is according to Kotler and Keller (2006), Lovelock and Wirtz, (2007). ‘Benefit not ownership’ attribute of service holds that a service may only result in a benefit to the purchaser and not ownership as in the case of goods.

Service quality has multiple perspectives and has been defined differently under different conditions. Evans (2000), states that some of the best known proponents of the importance of quality are Deming (1950), Philip B Crosby (1970), Armand V. Feigenbaum (1961), Kaoru Ishikawa, (1962) and M. Juran, (1951). These researchers provided definitions of quality based on different attributes such as, “value” “excellence” and “conformance to specifications”. Evans and Lindsay, (2004) provide a more comprehensive customer based definition of quality that is “quality is meeting or exceeding customer expectation.” This definition is quiet popular today based on the phenomena that customers are the ultimate judge of quality and no other patron are involved in determining quality. Customers’ perception and expectations were acknowledged to be important in defining quality. In order to provide high quality service user’s perceptions should be higher than expectations. However if perceptions are quite lower than expectations a low quality service will be felt.

Andaleeb (1998), in his history on customer satisfaction in hospitals notes that firms that fail to understand the importance of delivering customer satisfaction may be inviting possible extinction. A positive attitude before the brand enhances the possibility of repetition and recommendation to other consumers agrees Reichheld and Sasser, (1990).Concerning the influences of satisfaction and quality of purchase intentions, Taylor and Baker (1994) suggest that satisfaction should be described as a moderator between service quality and purchase intention. A different perspective is supported by Bitner, (1990) according to whom the service quality judgment mediates satisfaction and purchasing intention.

2.2.1 Expected Service Quality

In the literature review, there are two perspectives regarding customer expectation of service quality. The first perspective is more associated with early scholars of service quality. They view customer expectation of service quality as a standard against which customer evaluation of service is compared to overall service quality. Thus they defined service quality as a gap between customer expectation of service performance and the customer perceived service performance confers Lawis (1994), Parasuraman (1988), and Zeithaml et al (1990). According to Zeithaml et al (1993), he explained customers' expectations as beliefs about a service that serves as yardstick against which service performance is judged. In simple terms it is what customers think the service should provide in terms of performance and value.

The main drivers of customer expectations are the philosophy of the customer about the service, customer experience, and service promises says Edvardsson et al, (2004). Service promises could take the form of advertising and other form of communication by staff or the price and design. The second perspective of customer expectation of service quality is that customer expectation influence customer evaluation of service performance, but is not a standard for determining service quality says Suroja, (2003). This perspective is associated with the later scholars of service quality. The major advantage of measuring customer expectations under this perspective is that it enables service providers to diagnose customers view about the quality of a service.

2.2.2 Perceived Service Quality

Perceived service quality is the customer overall judgment of the superiority of a service according to Lewis et al (1994). It is what customers think has been provided in terms of performance and value by a service. There are two perspectives of perceived service quality in the reviewed literature. The early scholars of service quality compared perceived service quality with expected service quality to obtain overall service quality. Thus perceived service quality is not service quality on its own. Recent researchers however, consider perceived service quality as overall service quality. Another important aspect of perceived service quality that is debatable in the review is whether perceived service quality is either the aggregate of customer perception of identified components of service quality or its construct is measured separately from the factors related to service quality.

2.3 Models of Service Quality

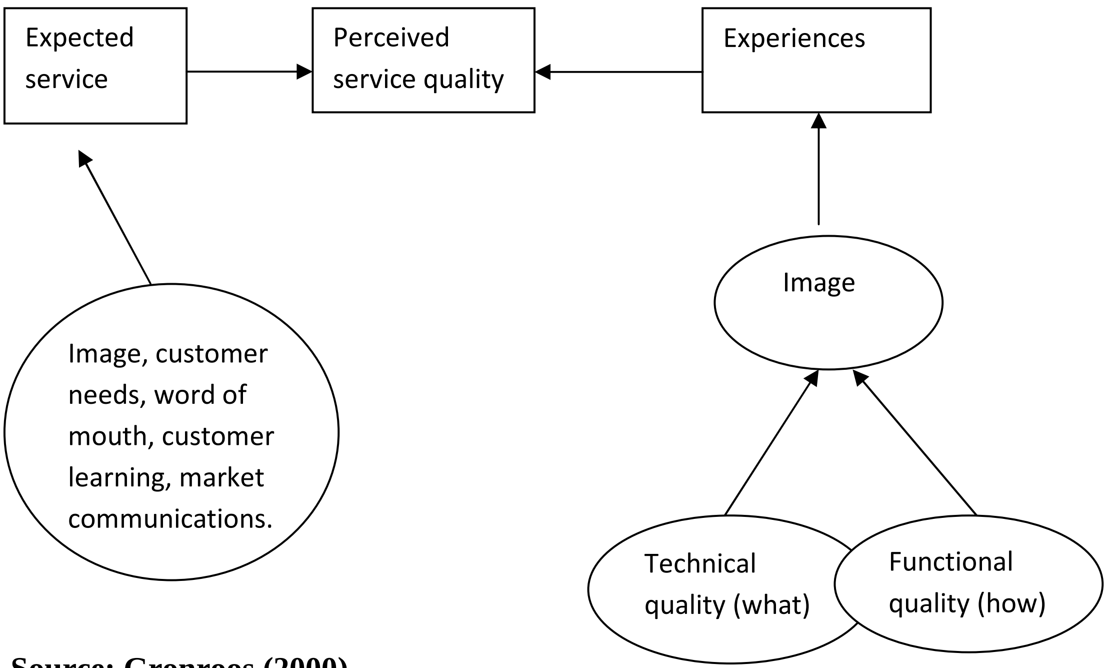
Understanding the key ingredients of service quality and the best way to measure and fulfill it is a keenly debated area in service marketing. As a result, there are some ‘service quality models’ especially the perceived service quality model (Gronroos

1984) and Gap model (Parasuraman 1985), which have emerged and evolved within the past two decades.

2.3.1 Gronroos Service quality Model

In Gronroos Perceived Service Quality model, expectations are a function of market communication, image, word of mouth, consumer needs and learning whereas experience is a product of technical and functional quality which is filtered through the image.

Figure 1: Gronroos Service Quality Model

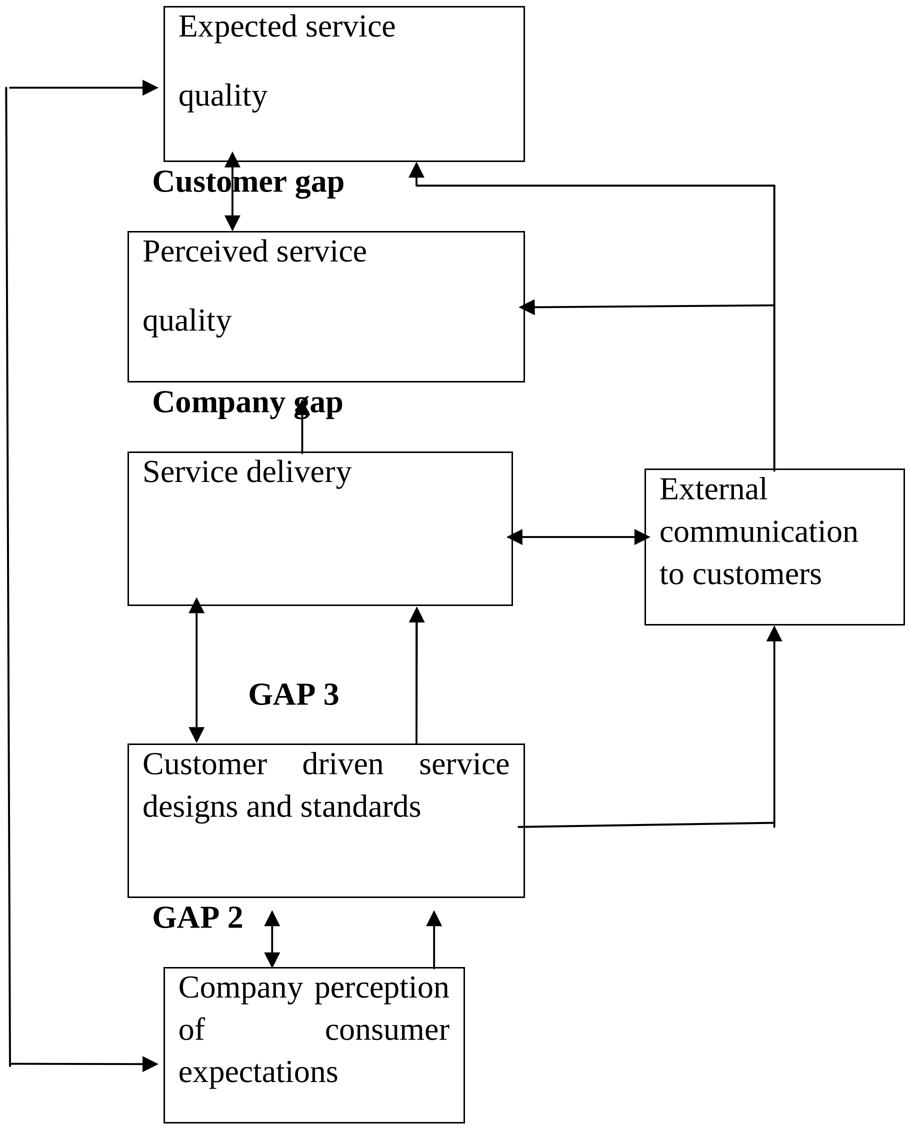


Source: Gronroos (2000)

Gronroos more clearly shows the existence of a perception gap, although there is no suggestion of “delighting” only for narrowing the gap. However the model has more practical application as it shows factors that contribute to each side of the gap. It demonstrates that the supplier can affect both sides of the gap-most notably by managing customer expectations. In addition it illustrates that the customer experience is a product of image of supplier quality, not just the actuality. Marketing as a process and the quality of service have an effect on the perception gap.

2.3.2 The GAP model of service quality

Figure 2: The Gap model



Source: Parasuraman et al (1985)

The “GAP” model of service quality from Parasuraman et al. (Zithaml & Bitner 1996). This model offers an integrated view of the consumer-company relationship. It is based on substantial research amongst a number of service providers. In common with the Gronroos model it shows the perception gap (GAP- 5) and outlines contributory factors. In this case, expected service is a function of word of mouth communication, personal needs and past experiences, and perceived service is a product of service delivery and external communication to consumers.

2.4 Service quality and customer satisfaction

From an operations perspective, service quality means meeting the specification for the service or quality of the service which the organization delivers. Customer satisfaction is a person’s feelings of pleasure or disappointment resulting from comparing a product’s perceived performance or outcome in relation to his/her expectations says Kotler, (1999).

This involves the organization’s ability to understand customer expectations and to do it right the first time (DIRFT). The ability to deal with problems as they arise is a key ingredient to success in the sense that customers who have an issue dealt with to their satisfaction have a 95% likelihood of repurchasing and telling 5 people about their experience, if they don’t complain (as 96% of people do) they will tell at least 10 other people about their problem and thus affecting the performance of the business.

2.5 Relationship between service quality and customer satisfaction

Kotler and Armstrong, (2012) agree that satisfaction is the post-purchase evaluation of products or services taking into consideration the expectations. Researchers are divided over the antecedents of service quality and satisfaction; some believe service quality leads to satisfaction while others think otherwise, Ting (2004). The studies of Lee et al (2000), Gilbert and Veloutsou (2006), Sulieman, (2011) and Buttle (1996) suggests that service quality leads to satisfaction. To achieve high level of customer satisfaction, most researchers suggest that a high level of service quality should be delivered by the service provider as service quality is normally considered an antecedent of customer satisfaction. As service quality improves, the probability of customer satisfaction increases.

Quality was one of the many dimensions on which satisfaction was based and satisfaction was one potential influence on future quality perceptions, Clemes, (2008). Service quality is an important tool to measure customer satisfaction, Hazlina et al, (2011). According to Jamal and Anastasiadou (2009), reliability, tangibility and empathy are positively related with customer satisfaction. Suleiman (2011) found that reliability, tangibility, responsiveness and assurance have significant positive relationship with customer satisfaction while empathy was found to have significant negative effect on customer satisfaction.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presented the research design that was used in the study. It showed the sampling techniques of the target population, data collection techniques and the methods that were used and the way data collected in the industry was analyzed. This section specified the framework for the entire research so as to achieve the objectives of the study**.**

3.2 Research design

A research design is the blue print for fulfilling objectives and answering questions, (Cooper and Schindler, 2011). The research design therefore describes the procedure that would be followed in conducting the study. Since all banks in the banking sector in Kenya were examined a census was adopted in order to cover all the banking institutions.

3.3 Population of the study.

The target population comprised all the 43 commercial banks in Kenya.

3.4 Sample design.

A census was used hence there was no sampling technique involved since all members of the population were used in the survey. The study targets all the 43 banks offering retail services.

3.5 Data collection.

Data for carrying out this study was collected using questionnaire. The questionnaire was administered by use of face to face and the drop and pick techniques on all the bank managers so that responses on what they regard to be perceived quality service that can guarantee customer satisfaction were captured. According to Doryei and Taguchi 2010 a questionnaire is a data collection instrument that best collects data from a large group of people at a reduced cost and within the time convenience of the respondents.

Secondary data was also used to validate the information arising from primary data. This data was from literature; bank own survey on customer service and select key informant interviews of the managers or their representatives.

3.6 Data analysis

Correlation analysis was used to demonstrate whether there is any relationship between service quality offered by banks to customer satisfaction as observed by the bank managers. Both qualitative and quantitative analysis was used to analyze the respondents view about the relationship between service quality and customer satisfaction in the banking sector.

Descriptive statistics helped in generating frequency distribution tables and generalize the results and find out if at all there was a relationship between quality of service and customer satisfaction.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

In this chapter, data from senior managers of the commercial banks in the banking industry in Kenya was collected to find out the perceptions of service quality and customer satisfaction in the banking industry. The study examined was to examine all the banks (43 licensed banks) in the banking industry in Kenya. 30 bank representatives responded to the research questionnaire.

The study was conducted among management staff of the commercial banks offering retail services in Kenya with the main focus being the senior management or their immediate representatives. Data was collected through face to face interview or use of the drop and pick techniques were employed and information from various respondents were compared against each in order to get more revelation on the issue under study by use of the conceptual analysis.

4.2 General Information on Respondents

Respondents from the commercial banks in the banking sector in Kenya were asked to indicate information about their age, gender, academic qualification, position held and length of service in the organizations. They were also required to offer answer to questions on quality, customer satisfaction and perceptions on service quality. In this chapter, data from 30 respondents out of expected 43 banks were received representing a response rate of 69.76% and a non-response rate of 30.24%. The findings of the analysis of the data are summarized qualitatively and quantitatively.

4.3 Findings of the Study

The following are the results of the analysis of both primary data and secondary data from information gathered from the respondents of the 43 commercial banks in Kenya who represented senior management teams in the banking sector in various positions so as to address the study objectives. In order to be able to understand the nature of service quality and customer satisfaction within the banking industry in Kenya, respondents were asked to give indications of what they perceive as service quality from the point of bank management and from the customer perspective.

Content analysis technique was used to assist in making inferences by objectively identifying specific information and relating the same to the objective. With the aid of appropriate analytical software, data was keyed into computer and analyzed to give frequency distribution and percentage scores. The results are in two parts first qualitatively and secondly quantitatively.

4.4 Findings of the Study Qualitatively

Qualitatively the data from the bank respondents was analyzed to confirm characteristics of service quality, perceptions of quality from bank managers as well as customers and the dimensions in which quality is viewed. The following are the findings in certain categorizations of the data.

4.4.1 Managers perceptions on Service quality

From analysis of the respondents' views, most bank managers saw delivery of timely service as the whole mark of quality. Recent researchers however, consider perceived service quality as overall service quality. Early scholars of service quality compared perceived service quality with expected service quality to obtain overall service quality. Thus perceived service quality is not service quality on its own but must be aggregated with the utility to satisfy customer needs. This is consistent with Lewis et al (1994), who ascertained that perceived service quality is the customer overall judgment of the superiority of a service. Other perceptions of quality by the bank executives were the need to offer personal customer attention on their individual needs than generalizing them, accessibility of the service and that service must be quantifiable hence demonstrating quality of service to cost and utility derived from the service.

4.4.2 Customers Preception's on Service Quality

According to bank managers customers perceive service quality as that service that is cost effective hence is affordability to the customers, service that was reliable, timely service and where applicable service that can be customized in the model of the clients/customers preference. These study findings are consistent with literature by (Gronroos 1984) and (Parasuraman 1985), in that there is always a perception gap between what customers consider as quality and the actual quality of service offered. Bank managers would do well by paying attention in closing the perceived gap in service quality.

4.4.3 SERQUAL dimensions most important in measurement of internal service quality

According to Jamal and Anastasiadou (2009), reliability, tangibility and empathy are positively related with customer satisfaction. From the findings of this study, bank executives think that the dimension of banks being responsive to customer needs was the most favoured, followed by service reliability and service acceptability. These results too as observed by Suleiman (2011) service reliability, tangibility, responsiveness and assurance have significant positive relationship with customer satisfaction while empathy was found to have significant negative effect on customer satisfaction.

4.4.4 Evidence of relationship of Service Quality on Financial Performance

All bank executives according to data obtained thought there was evidence of an existing relationship that service quality has on financial performance of the bank. Majority of the bank executives cited reasons like happy clients help advertise about products of a bank offering quality service. In this case, expected quality service is an attraction to more customers and growth of business. According to (Gronroos 1984) expected service is a function of word of mouth communication, personal needs and past experiences, and perceived service is a product of service delivery and external communication to consumers.

4.4.5 Link between Quality of Service vis-a-vis Business Performance

Bank managers thought that there was a clear link between service quality and business performance since according to their clients the more customers of their products were happy, the higher the volume of customers they would recruit and serve and the growth in their business.

4.5 Findings of the Study Quantitatively

The data was organized in such a way that information of respondents was captured and analyzed and then perceptions of quality service, from both managers of banks and customers and dimensions of service were grouped together to enable examination of relationship if it existed between quality service and customer satisfaction.

4.5.1 Age bracket of the respondent

From the analysis of the data from the respondents, banks executives were relatively young. This represented 80% of all the respondents being within the age of 26 years to 35 years as shown in table 4.1. Only 20% of the bank executives were at the age of 36 years and over.

Table 4.1: Age bracket of the respondent

Age	Frequency	Percent	Valid Percent	Cumulative Percent
26-0yrs	13	43.3	43.3	43.3
31-5yrs	11	36.7	36.7	80.0
36-40yrs	3	10.0	10.0	90.0
above 41yrs	3	10.0	10.0	100.0
Total	30	100.0	100.0	

4.5.2 Gender of the respondent

From the analysis of the bank executives who responded to the study were 56.7% were females, and 43.3% were males. This represented a good mix of gender balance in the banking sector which generally can be said to be 50-50 female-male ratio as shown in table 4.2

Table 4.2 Gender of the respondent

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Male	13	43.3	43.3	43.3
Female	17	56.7	56.7	100.0
Total	30	100.0	100.0	

4.5.3 Academic qualification of the respondent

Banks employed very qualified personnel ranging from undergraduates to postgraduates. From the analysis 56.7% of the bank executives were undergraduates while 43.3% were postgraduates. See table 4.3.

Table 4.3 Academic qualification of the respondent

Academic	Frequency	Percent	Valid Percent	Cumulative Percent
Undergraduate	17	56.7	56.7	56.7
Postgraduate	13	43.3	43.3	100.0
Total	30	100.0	100.0	

4.5.4 Position held by the respondent at bank

The respondents were drawn from customer relation consultants or managers (36.7%), Operation managers (30%) and Business bankers (10%). There were 13.3% tellers, 3.3% executive bankers and 3.3% being the branch managers. This was a good mix drawn from managers and highly knowledgeable team on the subject at hand as in table 4.3.

Table 4.4 Position held by the respondent at the bank

Position	Frequency	Percent	Valid Percent	Cumulative Percent
Relationship officer corporate consultant	11	36.7	36.7	36.7
Teller	4	13.3	13.3	50.0
Business banker	3	10.0	10.0	60.0
Operations Manager	9	30.0	30.0	90.0
Executive banker	1	3.3	3.3	93.3
Branch Manager	1	3.3	3.3	96.7
Financial Analyst	1	3.3	3.3	100.0
Total	30	100.0	100.0	

4.5.5 Managers perceptions on Service quality

Majority of bank managers (43.3%) said that in their view, customers would timely service and equally 40% of them think customers personal attention on their individual needs. Other service attributes that managers think are critical to customer satisfaction are; accessibility of the service (10%) and measurement of the service (6.7%) so that there is value for money. Table 4.5 is explicit on the same.

Table 4.5: What do managers perceive to be key attributes of service quality?

Service Perception	Frequency	Percent	Valid Percent	Cumulative Percent
Timely service delivery	13	43.3	43.3	43.3
Attending to each customer's needs	12	40.0	40.0	83.3
Service quality needs to be measured	2	6.7	6.7	90.0
Accessibility of the service	3	10.0	10.0	100.0
Total	30	100.0	100.0	

4.5.6 Customers perceptions on Service quality

According to bank managers and all the respondents, cost or price affordability (36.7%) was seen as the best attributes of service quality by customers, followed by service reliability (23.3%) and timely service (23.3%). Customized service (16.7%) was seen as the least quality by customers. Table 4.6 shows the results.

Table 4.6: What do customers perceive to be key attributes of quality?

Service Perception	Frequency	Percent	Valid Percent	Cumulative Percent
Timeliness of service	7	23.3	23.3	23.3
Service reliability	7	23.3	23.3	46.7
Price/Cost is affordable	11	36.7	36.7	83.3
Customized Service	5	16.7	16.7	100.0
Total	30	100.0	100.0	

4.5.7 Evidence of relationship of Service Quality on Financial Performance

100% of the respondents thought there was evidence of an existing relationship that service quality has on financial performance of the bank. Majority of the bank executives cited reasons like happy clients help advertise about products a bank offering quality service. Table 4.7 is explicit on the same.

Table 4.7: Is there any evidence to say that quality of service has enhanced financial performance of the bank?

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	30	100.0	100.0	100.0

4.5.8 SERQUAL dimensions most important in measurement of internal service quality

Most bank executives (53.3%) thought that according to customer perspectives, the dimension of banks being responsive to customer needs was the most favoured. Other dimensions that were highly rated were, Service reliability (36.7) and Service acceptability (10%) were service dimensions that bank managers may do well to inculcate. Table 4.5 is explains further.

Table 4.8: Which of the SERVQUAL dimensions is most important in measurement of internal service quality?

Dimension of Servqual	Frequency	Percent	Valid Percent	Cumulative Percent
Responsiveness	16	53.3	53.3	53.3
Reliability	11	36.7	36.7	90.0
Assurance	3	10.0	10.0	100.0
Total	30	100.0	100.0	

4.5.9 Link between Quality of Service vis-a-vis Business Performance

Bank managers (86.7%) said that in their view, there was a clear link between service quality and business performance since according to their clients the more customers of their products were happy, the higher the volume of customers they would recruit and serve. Other aspects showing direct link of quality service and business performance was the fact that banks need to recognize that happy customers amounts to good business by the banks (13.3%).

Table 4.9: How do you link quality of service vis-a-vis business performance?

Link	Frequency	Percent	Valid Percent	Cumulative Percent
enhance business performance by providing quality service	26	86.7	86.7	86.7
Recognizing that happy customer amounts to good business	4	13.3	13.3	100.0
Total	30	100.0	100.0	

4.6 Results of Correlation Analysis

This section presented the correlation analysis of various variables in the measurement of the relationship between quality service and customer satisfaction. The Pearson's Product moment correlation, which is a non-parametric measure of the strength and direction of association that exists between two variables, was used. According to (Kerlinger 1986) reporting the significance of all levels (0.05 and 0.01) was acceptable by scholars. The Pearson's Product moment correlation analysis for the relationship between quality of service and customer satisfaction in banking sector in Kenya as illustrated in Table 4.10.

Table 4. 10: Correlation Matrix

		Timely service delivery	Attending to each customer's needs	Service reliability	Price/Cost is affordable	Customer Satisfaction
Timely service delivery	Pearson Correlation		.535(**)	.594(**)	.459(*)	.522(**)
	Sig. (2-tailed)		.005	.001	.016	.005
Attending to each customer's needs	Pearson Correlation			.234	.460(*)	.084
	Sig. (2-tailed)			.334	.047	.731
Service reliability	Pearson Correlation				.750(**)	.553(*)
	Sig. (2-tailed)				.000	.028
Price/Cost is affordable	Pearson Correlation					.560(**)
	Sig. (2-tailed)					.003

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

* Correlation is significant at the 0.05 level (2-tailed). Source: Research Data

The Pearson's Product moment correlation results described in Table 4.10 shows that timely service strong and significant positive relationship with customer satisfaction, showing a correlation coefficient of r = 0.522, P<.01. There is strong and significant positive relationships between price/cost affordability and customer satisfaction (r = 0.560, P<.01) and service reliability and customer satisfaction (r=0.553, p<.01).

4.7 Discussion

The objective of the study was to establish the relationship if any that exists between quality of service and customer satisfaction in the banking industry in Kenya. While literature is divided on the relationship between quality of service and customer satisfaction, the results are consistent with studies by Lee et al (2000), Gilbert and Veloutsou (2006), Sulieman, (2011) and Buttle (1996) who suggested that service quality leads to satisfaction. For banks in Kenya to achieve high level of customer satisfaction, most researchers suggest that; that they need to achieve a high level of service quality delivered to customers as quality is normally considered an antecedent of customer satisfaction.

From study findings, respondents reported that there was a clear link between happy customers and increased business performance of the banks. There was clear indication that happy clients will tell other potential clients about the services they get from the bank hence help recruit more members. Kotler and Keller (2006) observed that customer satisfaction determines the success or failure of a business and customers are very sensitive to the quality of service that they receive from the service providers. Reichheld (1996) says that once a customer is dissatisfied with the services provided, may opt to turn away and never to return and most likely spread their bad experience to prospective customers thus discouraging them from dealing with the same bank. These findings are therefore consistent with observations by other researchers.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The objective of the study was to establish the existence of relationship between service quality and customer satisfaction in retail banking in Kenya. This chapter presents the summary of the findings, conclusion and recommendations drawn findings of the analysis of the respondents' views in order to address this study objective.

5.2 Conclusion

In general, the researcher sought to establish relationship between service quality and customer satisfaction in retail banking in Kenya. From the analysis, it was established that there was strong and significant positive relationship between quality service and customer satisfaction. Timely service had strong and significant positive relationship with customer satisfaction, showing a correlation coefficient of $r = 0.522$, $P<.01$. There is strong and significant positive relationships between price/cost affordability and customer satisfaction ($r = 0.560$, $P<.01$) and service reliability and customer satisfaction ($r=0.553$, $p<.01$).

Respondents showed that there was a clear link between quality of service and improved business performance. The happier the clients/customers are the better for the banks as these customers would freely through word of mouth invite potential clients to the bank. It was also established that from the findings in this study that bank executives dimensions responsive to customer needs was the most favoured, followed by service reliability and service acceptability. These results too as observed by Suleiman (2011) service reliability, tangibility, responsiveness and assurance have significant positive relationship with customer satisfaction while empathy was found to have significant negative effect on customer satisfaction.

5.3 Recommendations

This study recommends that banks engage in meaningful feedback and communication systems with the customers. Most researchers suggest that customers should be incorporated in the production process for the view of what they need, want or dislike in the entire process of production says Gronroos (2000). Incorporation of the views of the clients into the quality of service in according to the wants of customers will go a long way in satisfying them. (Kotler and Keller 2006) agree that this suggestion is laudable because it is better to hear from the customers rather than trying to think for them. In the changing banking scenario of 21st century, banks must have a vital identity to provide excellent services. Customers have also accurately demanded globally quality services from banks.

According to the Service Quality theory by Oliver (1980), it predicts that clients will judge quality as low, if performance does not meet their expectations and quality increases as performance exceeds expectation hence customers expectations serve the foundation on which service quality will be evaluated by customers. This study recommends that banks go all out to offer quality services to their customers. In doing so more customers would join and banks will realize improved business performance. Banks in Kenya have no options but to be of world class standard, committed to excellence in customers' satisfaction and to play a major role in the growing and diversifying financial sector (Balachandran, 2005).

5.4 Limitations of the Study

The study was inhibited by a number of ways. First, some of the respondents were not accessible as they were unwilling to respond to the questionnaire citing that the researcher was not a priority to their business and only customers were. From a target of 43 commercial banks in Kenya only 30 managed to respond to the questionnaire representing 69.76% response rate.

There is therefore need for banks to participate in the surveys to help generate information that will not only be useful to the banking sector but to academicians and policy makers as well. Other limitations included lack of time and commitment on the part of the targeted respondents.

5.5 Areas for further research

Since the study relied on the bank executives to get the views on customer satisfaction, there is need to carry out a similar research and get the views or perceptions from bank customers themselves.

Another area for consideration for further study arising from this project research is the impact of use of technology in advancing service quality to enhance customer satisfaction. What would happen for example if banks operationalized queuing theory enhanced by technology? It will be important to document the impact of technological influences on service delivery to customers by banks.

5.6 Implication on Policy theory and Practice

The academia world may use this report as reference point given its contribution to the body of knowledge. Students and other researchers may use these findings for comparison and better understand the relationship in quality service and customer satisfaction. The findings may also offer insights into areas of further research in the banking industry.

The policy and legislative framework in the banking sector need to be developed and organized such that they encourage investment, in turn this may encourage banks to offer quality service that would be beneficial to customers. This may have a ripple effect in the sector and the more clients bank in the country the more funding pool is available to carry out its developmental agenda as opposed to when money is not banked. Condusive policies from government and regulators would address this critical issue and give platform better and quality services that customers keep yearning for.

Banks as practitioners in the banking sector should use these findings to find ways of better addressing the quality of the service they offer to customers to enhance the performance of their business. This research has demonstrated that there is a link between quality of service offered and growth in clientele base leading to improved business performance.

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APPENDICES

Appendix I: List of the licensed Commercial Banks in Kenya

ABC Bank Kenya

Bank of Africa

Bank of Baroda

Bank of India

Barclays Bank Kenya

CFC Stanbic Holdings

Chase Bank Kenya

Citi Bank

Commercial Bank of Africa

Consolidated Bank of Kenya

Cooperative Bank of Kenya

Credit Bank

Development Bank of Kenya

Diamond Trust Bank

Dubai Bank Kenya

Eco bank Kenya

Equitorial Commercial Bank

Equity Bank

Family Bank

Fidelity Commercial Bank Limited

First Community Bank

Giro Commercial Bank

Guaranty Trust Bank Kenya

Guardian Bank

Gulf African Bank

Habib Bank

Habib Bank AG Zurich

Housing Finance Company of Kenya

I & M Bank

Imperial Bank Kenya

Jamii Bora Bank

Kenya Commercial Bank

K-rep Bank

Middle East Bank Kenya

National Bank of Kenya

NIC Bank

Oriental Commercial Bank

Paramount Universal Bank

Prime Bank Kenya

Standard Chattered Kenya

Trans National Bank Kenya

United Bank for Africa

Victoria Commercial Bank

Appendix II: Questionnaire

This questionnaire seeks to gather information in relation to bank executives on customer perception regarding service quality in Kenyan banks among commercial banks in Kenya. Information given by the respondents will be treated in confidence and will be used only for academic purposes.

Please tick where applicable

Section A: General information

1. Name of the respondent………………………………………………………..
(Optional)

2. Age bracket of the respondent? 18-25yrs, 26-30yrs, 31-35yrs, 36-40yrs, 41years and above.

3. Gender of the respondent? 1. Male 2.female

4. Academic qualifications? 1. Secondary level 2.college level 3.university level

5. Position held by the respondent…………………………………………………..

6. Name of the bank that you work for? ....

Section B: Service Quality

7. What do managers of the bank perceive to be the key attribute of service quality?

8. What problems and tasks are involved in providing high quality service?

9. Is service provision tailored to suit individual customers?

10. What do customers perceive to be key attributes of quality service?

11. Do discrepancies exist between the perceptions of consumers and service providers about quality of services?

Section C: Management Approach on Service Quality

12. Is there any evidence to say that quality of service has enhanced financial performance of the bank? Yes No.

13. Do you think your bank is the best bank to work in Kenya? Yes No (why?)

14. Which of the SERVQUAL dimensions is most important in measurement of internal service quality? A) Responsiveness b) Reliability c) Tangibility d)Empathy e) Assurance

15. How do you link quality of service vis- a- vis business performance?

16. How does the bank manage the information flow between the customers and employees towards generating higher customer satisfaction?

17. How does employee empowerment contribute to quality of service delivery?

18. How would the management know when an employee is ready to take personal responsibility for their work and results?

19. What happens when there is service failure? Who takes responsibility? (Employee or the bank or is it shared?)

20. How does the bank blend in new employees in to the system without causing any service failure?

21. How accessible is the senior management for you as an employee?

a) Very accessible

b) At general meeting

c) Depends on circumstances.