EFFECTS OF SERVICE QUALITY ON CUSTOMER RETENTION AMONG COMMERCIAL BANKS IN KENYA

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DECLARATION

I Winnie Sidi Daniel, declare that this paper is my original work and has never been presented in any other college, institution or university for any award.

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D61/61239/2013

This project has been submitted to the University of Nairobi with the approval of the project supervisor.

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DEDICATION

This research is dedicated to Dad Mr. Daniel Mbogo, my family and friends. Thank you for the love, support and always being there for me. God bless you all.

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LIST OF ABBREVIATIONS

ATM	:	Automated Teller Machine
CBK	:	Central Bank of Kenya
KCB	:	Kenya Commercial Bank
PCP	:	Pivotal Core Peripheral
RBV	:	Resource Based view
SERVQUAL	:	Service Quality
SPSS	:	Statistical Product & Services Solution

ABSTRACT

The purpose of this study was to examine the effect of service quality on customer retention among commercial banks in Kenya. The study was guided by the following research questions: How do customers perceive the quality of service offered by different banks? How does bank service quality relate to its customer retention? The objective of the study was to investigate the relationship between service quality practices and customer retention among commercial banks in Kenya. The research used a descriptive cross sectional research design. This research design was appropriate for this study since it seek to provide an overall picture of the extent to which service quality dimensions affect customer retention among commercial banks. Primary data was collected from bank customers using a likert type scale questionnaire. The finding was that most of the commercial banks in Kenya use the ServQual dimensions to some extent. Demographics data was analyzed by descriptive statistics while the relationship between service quality and customer retention was analyzed using regression model. There was significant relationship between ServQual dimensions (reliability, assurance, tangibility, empathy and responsiveness) and indicators of customer retention (customer trust, customer satisfaction, level of involvement, communication effectiveness, switching barriers and price). Therefore this study recommends that management should pay attention to service quality and other factors which may lead to customer retention.

Key words: Service Quality, Customer Retention, Commercial Banks in Kenya

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Excellent service quality differentiates one bank from the other; today it is essential for profit making and survival. Service quality is used as one of the strategies to retain customers. Customers have became quality conscious and they expect all services provided to be of high quality (Lee & Hwan, 2005). In order to have a sustainable competitive advantage service sectors like banks are obliged to provide excellent services to their customers.

The cost of acquiring new customers replacing those that the bank has lost is very high compared to the cost of retaining the existing ones (Reichheld & Kenny, 1990). In addition, longer term customer spend less time in understanding new products, they buy more and also generate a positive word of mouth which may lead to having more customers referrals hence promoting the company (Healy, 1999).

This study will be anchored on the resource-based view (RBV) theory and the theory of strategic group. RBV is one of the cited theories in the history of management theorizing. RBV is a new way to achieving competitive advantage as a result of work published by Wernerfelt, (1984) in 1980's and 1990's. According to RBV we can use the existing resources the company has to exploit n external opportunities. Hunt (1972) introduced the theory of strategic group which was further developed by Newman (1978). Clusters of companies having similar strategic goals are represented within a single industry (Porter, 1980). The performance of the organization is influenced by the industry factors (Barney,

1986). Caves and Porter (1977) introduced restriction to entry and mobility then he popularized the idea of strategic groups.

Competition is very high in the banking industry; banks compete among themselves and also among monetary institutions (Kaynak & Kucukemiroglu, 1992; Hull, 2002). Almost all bank products are similar and can be duplicated easily, their products can be distinguished in terms of quality and price. Therefore, for a business to survive in this competitive environment customer retention can be used as a tool to gain a strategic advantage.

1.1.1 Service Quality

As indicated by Bitner, (1994) service quality is characterized as the client general impression of the relative inadequacy of the association and its administrations. Then again, Cronin & Taylor (1994), characterized service quality as a type of mentality speaking to a long run general assessment of administration. Kanishka, (2006) additionally characterizes service quality as a measure of the degree to which the administration conveyed meets the clients' desires. He promote contended that the way of most administration is nearness of client in the conveyance procedure and the view of value is impacted by the administration result as well as the conveyance procedure. Service quality is a state of mind related yet not proportionate to fulfillment of outcomes from examinations of desires and execution (Bolton and Drew, 1991).

Service quality manages the cooperation amongst clients and administration suppliers. The desires of clients in an administration experience shape their evaluation of value for that administration. At the point when there is a confound between client desire and the administration conveyed, the apparent administration quality will endure. On the off

chance that clients' desires are more prominent than the administration suppliers' execution, then the apparent quality is not exactly agreeable and subsequently client is dissatisfied (Berry et al., 1985). Disappointment by the administration supplier to recognize and fulfill their client's desire naturally prompts to the development of a quality crevice.

1.1.2 Customer Retention

Gerpott, Rams and Schindler (2001) state customer retention as a coherence of the business relations between the client and organization. Customer retention is "the act of attempting to fulfill clients with the goal of growing long haul associations with them". Zineldin (2000) characterizes retention as a ceaseless responsibility to business with a specific organization in a predictable way. Day (1994) fights that we ought to recognize client needs fulfill the requirements and it will enhance customer retention. This will help the supplier to figure methodologies and arrangements. In this study customer retention is interpreted as meaning the length of client remain with a bank requesting items and administrations as (Gerpott, Rams and Schindler, 2001).

Retaining customers' decreases the cost of procuring new clients consequently enhances benefit (Reichheld & Kenny, 1990; Reichheld, 1996; Schmittlein, 1995). What's more, customer retention joins the idea of offering these retained clients products or administrations that are thought liable to address their issues Reichheld and Kenny, (1990) which is additionally alluded to us cross offering. Effective customer retention begins with the initial introduction the association has and last through the whole association with the client. Customer retention is a marker of clients being happy with the administrations rendered by the bank. At the point when there is client rehash business

referral from clients, this means that there is customer retention (Timothy,Bruce, Larzan & Jao, 2007).

1.1.3 Service Quality and Customer Retention

Know your customer is a strategy used by service firms to gain competitive advantage. Most of the service firms serve customers directly giving them an opportunity to build a good long term relationship. Since they are served as individuals it's easier to sort customers into groups and keep a record of them.

There is need for banks to differentiate between themselves and other banks because of the competitive environment which is achieved through providing high quality services. Client dedication is accomplished when a client is happy with the astounding administration (Caruana et al., 2000; Caruana, 2002). For a service provider to be successful, it will rely on upon the relationship the administration supplier has with the client (Panda, 2003)

Service providers can be distinguished from manufacturers. Service providers encounter these challenges; customers participate directly, consumptions of the services are immediate, services are provided at customers' convenience and intangibility. Reliability, assurance, tangibles, empathy and responsiveness are the service quality dimension whereas reliability is ranked as number one.

1.1.4 Commercial Banks in Kenya

Commercial banks are regularized and controlled by Central Bank. As of now there are 42 authorized commercial banks (CBK, 2016). With a population of 44 million and a total of 42 banks, the competition for customer base must be very high. In the number of

customer base, Equity Bank with more than 9.2 million customers, Kenya Commercial Bank has 7 million, and Cooperative Bank has 5.4 million while Barclays Bank has over 800,000 customers. Almost all banks have partnered with mobile operators in enhancing their banking services with other like Equity Bank coming up with their own sim card (Equitel) that is taking over both the banking and the communication environment by storm. Kenya Commercial Bank has a service called M-Banking that is in partnership with Safaricom M-PESA where customers can access their accounts, ask for loans, bank and withdraw. Recently, the bank started a KCB-MPESA accounts where customers with MPESA accounts can bank and borrow loans from KCB via MPESA. Every bank has its own product that it offers on a mobile and what suites the needs and demands of the customers (Soko directory, 2016).

Despite the above positive development, banks are still faced with the challenges of retaining customers. Customers acquire information about the service quality and price of competing providers in their market (e.g., through word of mouth, increased advertising in the local market, etc.), they are able to gauge which provider offers the best fit with their own preferences over service quality and price. Service quality enables banks to concentrate on value adding processes so as to be effective and efficient. The banking industry also have a challenge is sorting their customers in terms of service sensitive and price sensitive. Service sensitive customers, who possess a higher willingness to pay for service quality, may gravitate over time to the companies that occupy a high relative service quality/price position within their market. Likewise, price sensitive customers, who possess a lower willingness to pay for service quality, may gravitate over time to the companies that occupy a low relative service quality/price position within their market.

1.2 Research Problem

Businesses are forced to review their strategy in customer service because of the competitive dynamic environment. Most of the customers have improved their standard of living, some are highly educated and are aware of the changing times, they have their specific needs, taste and preference (Davidow & Vital, 1989).

Formerly the banking industry orientation in Kenya mainly focused on products and not customers since there were few competitors in the country. Essentially, the main problem facing most commercial banks in Kenya today is how to retain their customers through delivery of quality bank services. This problem of customer retention by a bank depends on how customers perceive to be the quality of bank services.

The majority of the empirical literature focuses on customer satisfaction (Abdullah & Arokiasamy, 2013; Akbar & Parvez , 2009; Angelova & Zekir, 2011). Most companies tend to think that when they introduce customer satisfaction programs it will reduce the rate of defection, customer satisfaction does not automatically transform to customer retention. It is essential to create a relationship or a bond between the company and the customer, understand the customer, monitoring system should be put in place and incase of any problem if should be solved early before it becomes critical.

Busili (2014) conducted a research on Service quality dimensions adopted by commercial banks in agency banking in Kenya concluded that banks have a need to improve on these incentives as the indication of great competition emerging for the same kind of services. He recommends the need to improve on security matters at the agent bank outlets and carry out continuous training of staff on new developments in the

industry. Nuria (2015), in her study of service quality practices and customer satisfaction in commercial banks in Kenya found that most of the commercial banks in Kenya uses the Servqual dimensions to some extent and there was significant relationship between Servqual dimensions and indicators of customer satisfaction (customer loyalty, customers' degree of appreciation and customer strengthened relationship). Onyimbo (2015) in his study of application of Servqual model in the Kenyan mobile phone money transfer services sector concluded that identification of dominant service quality dimensions in different service industries will assist in guiding operations managers to deploy specialized service design and delivery to enhance service quality that meet consumers' expectations.

This study focuses on the effects of service quality on customer retention. We need to seek answers to these questions: how do customers perceive the quality of service offered by different banks? How does bank service quality relate to its customer retention?

1.3 Research Objectives

The objective of this study was:

1. To investigate the relationship between service quality practices and customer retention among commercial banks in Kenya.

1.4 Value of the Study

This study will help academicians understand the important of service quality practices and customer retention. The final report will act as a future reference material of which scholars and future researchers will use it for their research.

The study will also benefit policy makers to improve its overall service delivery, especially in areas where the degree of influence of service quality appears to be low in enhancing customer retention. This is expected to give Banks a comparative advantage and the most preferred bank in the commercial banks subsector. By virtue of improved services, banks can benchmark its policies and strategies for quality improvement programmes leading to overall improvement in performance of the bank.

The study would have a symbiotic benefit to the bank and the customer. The findings would enable the bank to identify both the effective and ineffective customer retention strategies. The information would also benefit customers as management would be more customer need oriented leading to customer satisfaction hence retention. Good customer management would lead to reduced costs and also enable management to make strategic decisions to outsmart the competitors and also to remain relevant in the market. Customers would be able to receive quality services leading to increased loyalty.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section introduces literature related to customer retention. It is structured into theories in service quality, service quality models, empirical review of service quality and customer retention summary of literature review and conceptual framework.

2.2 Theories in Service Quality

This chapter defines theoretical foundations in which this study is based on two theories. The section below introduces two theories; the resource based view and strategic group theory.

2.2.1 Resource Based View

Firms can now be viewed as a gathering of resources, skills, and routine as proposed by Wernerfelt, (1984); Barney, (1991); Wernerfelt, (1995); Barney, (1997), (2001) in (1990) for it to sustain a competitive advantage. Resources and capabilities controlled by the firm are the central focus of RBV since it differentiates the performance among firms (Peteraf & Barney, 2003).

For an organization to have a continual competitive gain; the resources should not be static, they should be unique so RBV does not apply to smaller firms (Connor, 2010). We cannot make reliable prediction because of the limited ability RBV has (Priem & Butler, 2001).

2.2.2 Strategic Group Theory

Hunt (1972) introduced the theory of strategic group and Newman (1978) developed it further. Porter (1979) defined strategic group as a group of companies with similar

strategies operate in a single industry. The thought of creating strategic groups was popularized by Caves and Porter (1977), who, later introduced barrier to entry and barrier to mobility. Due to mobility barriers a business will find it complex to shift to a more valuable group (Caves and Porter, 1977).

2.3 Service Quality Models

The world economies is dynamic, customer needs keep on changing, customer taste and preferences vary from one customer to another, the quality of service is considered important so as to adopt to the changing environment (Kagira, 2011; Sanchez, 2007). As Turban (2002), puts it for a business to be successful, customers need to be offered quality service. Customers also seek those organizations' offering superior quality of service so that they remain loyal hence long term customer.

Quality service delivery is a challenge to many management and organizations, only customers' judge quality. In this regard, Service quality can be then be partitioned into two fundamental measurements (Gronroos, 1984). The underlying is alluded to by Zeithaml et al. (1985) as 'outcome quality' and the consequent by Gronroos (1984) as 'technical quality.' The primary viewpoint is worried with what the administration conveys and the second angle is worried with how the administration is conveyed: the method that the client experienced to get to the consequence of the administration. Below are some of the various models in service quality literature. They include, GAP's Model, Pivotal Core Peripheral Model, Technical and Functional Model.

2.3.1 The GAPs Model (SERVQUAL)

According to the service gap theory, service quality process can be analyzed regarding the hole between client yearning and discernments with respect to administration,

representatives and clients (Oliver, 1997). In the event that the client's wishes of administration don't coordinate the view of administration conveyed, clients get to be disappointed. This administration crevice hypothesis depended on the Gaps-display determined by Parasuraman et.al (1985). The crevices were as per the following: Gap one between shoppers' desire and administration's observations (not comprehending what purchasers anticipate). Crevice two between administration's recognitions and administration quality particulars (wrong administration quality measures). Crevice three between administration quality particulars and administration conveyance (the administration execution hole). Hole four between administration conveyance and outside (when guarantees don't coordinate conveyance). Hole five between buyers' desire and saw benefit.

The Servqual model is based on gap 5. It compares the views of the customer (service recipient) and employee (service provider). To date, Servqual has become the most discussed model in service quality literature. Many other models have been developed out of criticisms raised on Servqual.

2.3.2 Pivotal-Core-Peripheral (P-C-P) Model

Philip and Hazlett (1997) developed the Pivotal-Core-Peripheral model. It focuses on service quality attributes namely pivotal (output), core and peripheral. The pivotal attributes positioned at the peak of the pyramid representing the three levels are considered collectively to be the most important. They are characterized as the "yield" from administration experience.

The center properties are fixated on the significant traits can be portrayed as the blend of the general population, forms and the administration authoritative structure through which

customers must interface and arrange so they can accomplish critical characteristics. The third level of the model spotlights on the fringe traits which can be characterized as the 'accidental additional items'. They are proposed to make the administration experience more total and make the whole comprehension for the customers a total delight. At the point when the client makes an appraisal of any administration experience, he is satisfied if the vital traits are accomplished however as the administration is utilized all the more regularly, the center and fringe ascribes may start to increase meaning.

2.3.3 Technical and Functional Model

Grönroos (1984) came up with the Technical and Functional quality model in which he concluded that a firm needs to understand how customers perceive quality and the way service is influenced for it to deliver good service. Technical quality, functional quality and image are the three components he came up with. Technical quality is the results received after the customer interacts with the firm. Functional quality on the other hand is how the customer gets the technical outcome. Lastly, image is very essential to the firm itself.

The Grönroos model, as depicted indicates that a positive perception of quality can be the result of ensuring customers positive experience on structural quality, technical quality and functional quality of services. Structural quality identifies with the administration suppliers and in addition the setting of that association. Technical quality refers to what customer receives; and lastly, functional quality focuses on how customers receive the service. Functional quality is an important aspect for business institutions, like banks, and relates to technology. Therefore, a good functional quality depends on the following drivers: Attitudes and staff performance, ease of access and flexibility, reliability and trustworthiness, readiness to recovery, and lastly, reputation and honesty.

Service quality is a concept that has been difficult to both define and measure, and there has been no clear consensus (Wisniewski, 1996). Parasuraman, Zeithaml and Berry (1988) express that service quality is controlled by the contrasts between client's desires and the administration conveyed by the supplier. We can conclude from the definitions that service quality is based on customers' judgment and expectations.

Service quality has numerous dimensions depending on the service industry in question. However, five dimensions are considered the most important and encompass the rest; these include reliability, responsiveness, assurance, empathy and tangibles (Parasuraman et al., 1988). Reliability refers to consistency of performance and dependability i.e. the capacity to play out the guaranteed benefit constantly and precisely (Wong & Sohal, 2003). Responsiveness then again is characterized as the ability or readiness to provide a service in a timely manner .i.e. ability to help clients and give provoke benefit (Johnston, 2006). Assurance alludes to the information and affability of representatives and their capacity to pass on trust and certainty (Juwaheer & Ross, 2003). Empathy on the other hand refers to the caring individual attention provided to customers. Tangibles refer to the physical facilities, equipment, and appearance of personnel.

2.4 Empirical Review of Service Quality and Customer Retention

Schlesinger and Heskett (1991) pointed out that revenues can be generated as a result of maintaining the relationship between the client and the administration supplier. This supported by Parasuraman *et al*. (1985) observations who documented that, the quality of service is judged low or high depending on the customer expectations(Zeithaml et al. (1990), Heskett et al. (1990) found that customer satisfaction is as a results of good service delivery. They revealed that, motivating employees to response quickly to a

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frustrated customer can turn the customer into a satisfied one, hence, ensure customer retention. This supports the observation by Ioanna (2002) on "The Role of Employee Development in Customer Relations, in UK Retail Banks." Ioanna further proposed that we cannot use product differentiation in a competing environment. Industry like banks deliver same products, bank management differentiate themselves from competitors through service quality. This observation is relevant to one of this study's hypothesis because, implicitly, one of the objectives is, partly, to know the extent to which competence of bank employees influences bank customer retention.

Leeds (1992) in his study on "Mystery Shopping' Offers Clues to Quality Service" acknowledged that, in businesses which have common or similar products will rely on quality". Customers switch banks because of the poor service they receive, tellers being the prime consideration of one choosing a bank. A customer may choose to stay or leave the bank depending on the satisfaction.

Wang and Wang (2006) undertook a study on how internet affects service quality in the banking sector. He found out that the use of internet is more convenient, saves time and easy to access. This observation is relevant to this study because, one of our specific objectives is to know how bank service influences bank customer retention. Specifically this study intends to examine service quality to see if accessibility of bank service, such as ATM services if it enhances customer retention.

Gachie (2008) undertook a study on service quality by applying the Servqual model to commercial banks in Kenya. He considered the model as a more objective measure than adverts by banks. His objectives for the study were to determine service quality priorities

employed by both large and smaller banks. It also was to determine what defined service quality models have been employed and how these models relate to Servqual. Thirdly, he was to determine whether banks adhere to the existing service quality models and lastly to compare quality levels in Kenyan banks. The study revealed that customer perceptions of banks services were lower than expectations. It also showed that local banks don't put a lot of emphasis on quality programs unlike international banks. International banks have low expectations as compared to local banks since they have stringent control measures. The study did not however look at the question of other models that may have been used by banks.

2.5 Summary of Literature Review (Knowledge Gaps)

The use of these models affects the service quality and customer retention of banks in various ways. It can be assumed that they have a positive effect on the quality service offered by the banks. However, it is not known how the use of these models affects bank service quality and therefore there is a need for such a study to be conducted. The study will also help to find out which models are best to use when measuring service quality to retain customers.

Little research has been done on the development of customer retention plans (DeSouza, 1992). According to Weinstein, (2002) 80 per cent of the companies spend more time going for new business which is budgeted for. Organizations spend 23 per cent is spent on customer retention budget (Payne and Frow's, 1999). Companies reported 54 per cent that customer retention is more important (Aspinall et al., 2001).

2.6 Conceptual Framework

The dependent variable of the study is customer retention. Indicators of customer retention are customer trust, customer satisfaction, level of involvement, communication effectiveness, switching barriers and price. The independent variable is service quality which according to Servqual measurement scale consist of five dimensional structures namely tangibles, reliability, responsiveness, assurance, and empathy. These will be measured using a 5 point likert scale.

Service Quality   **Customer Retention**

Tangibles · Reliability · Responsiveness · Assurance · Empathy	→	Customer trust · Customer satisfaction · Level of involvement · Communication effectiveness · Switching barriers · price

Independent variables   **Dependent variables**
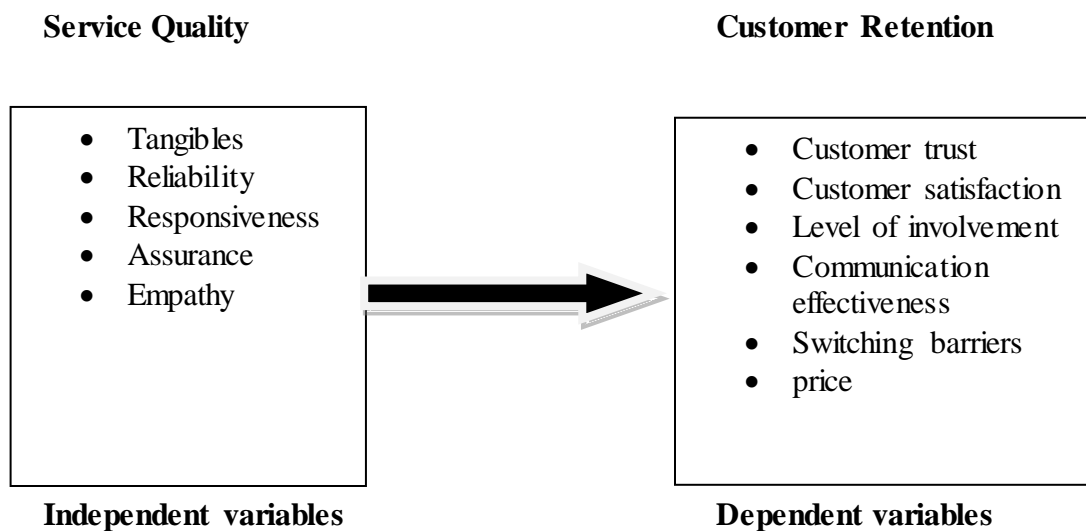
Figure 1: Conceptual Framework

Source: Author (2016)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section concentrates on how the study was embraced, the area of the study and the target population. The sample size and sampling procedures that was used in the study are discussed. Further the data collection instrument that was used in carrying out the research is also looked at. Data collection procedures are laid out. In conclusion the researcher lays down the data analysis techniques that were used in analyzing the collected data.

3.2 Research Design

The research design that was used is descriptive cross-sectional design. It basically describes market characteristics and how the particular object of study is used in the industry. The main objective is to acquire knowledge on how improvement of service quality enhances customer retention.

3.3 Population of the study

There are 42 licensed commercial banks in Kenya according to Central Bank of Kenya report (as listed in appendix 2) and all these banks were studied. Because the population is relatively small, a census was undertaken.

3.3 Data Collection

Primary data was collected using questionnaires where each respondent was provided with a questionnaire immediately after getting service from the bank. Questions were modified from the Servqual model as formulated by Parasuraman et al., (1988) is used. The questionnaire was divided into 3 parts. Part one was general information, the second

part was information regarding service quality and lastly part three was information regarding customer retention.

A five point likert scale was used ranging from "1= strongly disagree" to "5= strongly agree" while 2, 3 and 4 are scaled as disagree, neural agree respectively. 4 –5 indicates positive influence of service quality dimensions on customer retention, while the range from 1– 2 shows that, service quality dimensions is not a factor which may influence customer retention. On the same questionnaire respondents are required to indicate the length of stay with the bank (in years).

3.5 Data Analysis

The analysis was carried out using Statistical Product & Services Solutions (SPSS) software; descriptive statistics computed included frequency distribution tables, histogram, and pie charts. The relationship between service quality practices and customer retention was analyzed using regression analysis as follows.

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + + €$$

Where:

Y = Customer retention

a = Constant

b_1 - b_5, Coefficient of X_n which represents the estimate of effect of X_n on customer retention.

X_1 = Tangible

X_2 = Reliability

X_3 = Responsiveness

X_4 = Assurance

X_5 = Empathy

€ = Error term.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents an analysis, presentation and interpretation of the data collected. The data was analyzed using Statistical Product &Services Solutions (SPSS). The questionnaires were edited and coded

4.2 Demographic Characteristics of the Respondents

4.2.1 Response Rate

From Table 4.1 below of response rate, the results show that out of the 42 targeted respondents, 34 successfully filled the questionnaires. This represents a response rate of 81%. This reaction rate was great it fits in with Mugenda and Mugenda (2003) condition that a reaction rate of half is adequate for investigation and reporting; a rate of 60% is great and a reaction rate of 70% is above fabulous.

Table 4.1 Response Rate

Response	Frequency	Percentage (%)
Response	34	81
Non responses	8	19
Total	**42**	**100**

Source: Field data (2016)

4.2.2 Gender

Male were the highest in respondents with 65% representing 22 male whereas the female respondents had 35% representing 12 female. This justifies that most men are account holders.

Table 4.2 Gender

Gender	Frequency	Percentage (%)
Male	22	65
Female	12	35
Total	**34**	**100**

Source: Field data (2016)

4.2.3 Respondents Age Groups

With regards to age, results indicate that the majority of the respondents were between the ages of 31 and 40 years with 47%. The age bracket; 18-30 years accounted for 29% whereas age bracket 41-50 years accounted for 24%. There was no respondent above 50 years.

Table 4.3 Age of respondents

Age range	Frequency	Percentage (%)
18-30 years	10	29
31-40 years	16	47
41-50 years	8	24
Total	**34**	**100**

Source: Field data (2016)

4.2.4 Duration of Clientship

In order to explain the effect of service quality among commercial banks, we need to know how long the customers have stayed with the bank. 47% have been customers between duration of 1-4 years, 24% from 5-9 years, and 20% for less than 1 year and 9% above 10years. Table 4.4 represents how long each of the respondents has stayed with the bank. 16 of the respondents have stayed with the bank for a period of 1-4 years giving an average of 4 per year in the first four years.

Table 4.4 Duration of Clientship

Duration	Frequency	Percentage (%)
Less than 1 year	7	20
1-4 years	16	47
5-9 years	8	24
Above 10 years	3	9
Total	**34**	**100**

Source: Field data (2016)

4.2.5 Future Banking

Majority of the respondents 79% who held accounts with banks intend to bank with the same bank the next 5 years. 6% have no intention of banking with same bank and 15% remain undecided. From the findings those who would like to continue banking were satisfied with the services, those are not willing to bank want to try other banks. Table 4.5 below shows the figures.

Table 4.5 Future Banking

Future banking	Frequency	Percentage (%)
Yes	27	79
No	2	6
Undecided	5	15
Total	**34**	**100**

Source: Field data (2016)

4.3 Service Quality Practices by the Commercial Banks in Kenya

To establish the extent to which commercial banks has adopted service quality practices, respondents were required to show the degree to which they agreed with the service quality practices. The responses were subjected to descriptive statistics and the findings were presented in table 4.5. It can be observed that responsiveness has the most elevated

mean of 4.338 taken after by empathy with a mean of 4.321. Tangible has a mean of 4.250; reliability has a mean of 4.235 and lastly, assurance with a mean of 4.005. It shows the most practiced service quality in commercial banks is responsiveness followed by empathy

Table 4.6 Ranking of Service Quality Practices

SERVICE QUALITY	MEAN	STANDARD DEVIATION	RANK
TANGIBLES	4.250	0.656	3
RELIABILITY	4.235	0.546	4
RESPONSIVENESS	4.338	0.510	1
ASSURANCE	4.005	0.447	5
EMPATHY	4.321	0.495	2

Source: Research data (2016)

4.4 Customer Retention

The results show that respondents rated customer feedback and follow ups (4.500) as the most improved indicator of customer retention; followed by improved profitability (4.441) then satisfied customer and customer trust with a mean of 4.412. Effective communication was rated number five with a mean of 4.382 followed by training employees with a mean of 4.324 then accounts opened by existing customers followed with a mean of 4.294. Price changes, level of involvement and introduction of new products were rated the same with a mean of 4.206.

Table 4.7 Ranking of Customer Retention Indicators

CUSTOMER RETENTION	MEAN	STANDARD DEVIATION	RANK
Retaining customers improves profitability of the bank.	4.441	0.553	2
Customer retention is an indicator of satisfied customer.	4.412	0.844	3
Introduction of new products will lead to customer retention.	4.206	0.867	8
Training employees will increase customer retention.	4.324	0.794	6
Customer feedback and follow ups will lead to customer retention.	4.500	0.776	1
Effective communication leads to customer retention.	4.382	0.875	5
Level of customer involvement increase customer retention.	4.206	0.758	8
Price changes determine customer retention.	4.206	0.796	8
Account opening of existing customers indicates customer retention	4.294	0.749	7
Customer trust increase customer retention	4.412	0.809	3

Source: Research data (2016)

4.5 Relationship between Service Quality and Customer Retention among Commercial Banks in Kenya

To facilitate an inferential analysis of the relationship between service quality practices and customer retention among commercial banks in Kenya, the respondents were requested to specify the degree to which service quality services had contributed to

customer retention. The mean responses to service quality practices and customer retention are summarized below.

Table 4.8 Interaction of Elements of Service Quality Practices

Respondent	Y	X1	X2	X3	X4	X5
1	3.9	4.5	4	4	3.67	3.5
2	3.8	3.5	4.5	3	4	4.5
3	4.5	5	4	5	5	5
4	4	2	4	4.5	4	4.9
5	3.9	4	5	4	4.67	5
6	4.1	4.5	3.5	4.5	3.67	4
7	4.1	4	3.5	4.5	3.67	4
8	4.2	4	3	3.5	3.67	4
9	4.3	4	4	5	4	4
10	4.1	4	4.5	4	3.67	4
11	4.1	3.5	4.5	4.5	4.33	4
12	4.4	4.5	4.5	4	4	4
13	4.4	5	4.5	4	4.33	4
14	4.5	4.5	4	5	4	4
15	4.6	4	4.5	5	3.67	3.5
16	3.9	3.5	4	4	3.67	3.5
17	1.7	4	3	4	3	4
18	4.4	4.5	4	4	4.33	4
19	4.5	4	4.5	5	5	5
20	4.5	4.5	4	4	3.67	5
21	4.2	4	4.5	4	3.67	4.5
22	4.6	5	4	4.5	4	4.5
23	4.5	4	5	4.5	4	4
24	5	5	5	5	4.67	5
25	4.5	4	3.5	3.5	3.33	4
26	4.8	5	4	4	4	5
27	4.7	5	5	4.5	4.5	5
28	5	5	5	5	4	4
29	5	3.5	4	4.5	4	4
30	4.7	5	5	5	4.33	4.5
31	5	4	4	4	3.67	5
32	4.7	5	4.5	5	4.33	4.5
33	4.7	5	5	4.5	4.33	5
34	4.2	3.5	4	4	3.33	4

Where Y is customer retention, X_1 is tangibles; X_2 is reliability; X_3 is responsiveness; X_4 is assurance and X_5 is empathy. A regression model was applied to determine the relationship between service quality practices and customer retention among commercial banks in Kenya. From the analysis, the regression model established was

$$Y = 0.729 + 0.162\ X_1 + 0.287\ X_2 + 0.186\ X_3 + 0.112\ X_4 + 0.103\ X_5$$

Meaning that for every unit increase in X_1, Y will change by 0.162. Similarly a unit increase in X_2, Y will change by 0.287, a unit increase in X_3, Y will change by 0.186, and a unit increase in X_4, Y will change by 0.112. Lastly a unit change increase in X_5, Y will change by 0.103. All the B coefficients have a positive relationship with Y.

A regression analysis of the relationship between service quality practices and customer retention performed yielded the outcome as shown in table 4.9

Table 4.9: Regression Analysis Results for Service Quality Practices and Customer Retention

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
	B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
(Constant)	.729	1.077		.677	.504					
Tangibles	.162	.147	.187	1.109	.277	.364	.205	.172	.848	1.179
1 Reliability	.287	.204	.275	1.406	.171	.468	.257	.219	.632	1.583
Responsiveness	.186	.204	.167	.910	.370	.370	.170	.142	.720	1.388
Assurance	.112	.307	.088	.366	.717	.446	.069	.057	.416	2.407
Empathy	.103	.218	.090	.473	.640	.283	.089	.074	.673	1.487

a. Dependent Variable: Customer Retention

Source: Field data (2016)

H0: r = 0 (The coefficient of correlation is not significant)

H1: r ≠ 0 (The coefficient of correlation is significant)

It is a one tailed test at 5% level of significance with df = n-2 = 34-2 =32. The decision rule would therefore be to reject H0: if computed t is less than 1.729

Computed **t** = r √ n-2 ∕ 1-r2 = 0.569√ 34-2 ∕ 1-.323   = 6.875

Decision: since computed t (6.875) is greater than critical t (1.729), the null hypothesis is rejected implying that the coefficient of correlation between service quality practices and customer retention is significant.

The model shows that tangibles (X_1), reliability(X_2), responsiveness(X_3), assurance(X_4), empathy (X_5) are all positively related to customer retention as shown by their coefficient values. From this model it can also be inferred that none of the components of the service quality practices is significant since all their p-values are greater than the significance of 0.05. It would therefore not be appropriate to use this model to predict customer retention because all the individual parameters are not significant in explaining the level of retention.

Table 4.10 Overall Effect of Service Quality on the Degree of Customer Retention

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.564	5	.713	2.677	.042[b]
	Residual	7.456	28	.266		
	Total	11.020	33			

Source: field data (2016)

According to table 4.10, the overall significance of the model was 0.042 with an F value of 2.677. The P values in the table represent ANOVA statistics used to present the regression model significance. Overall, the model is significant since the P value of 0.042 is less than the level of significance of 0.05.

Table 4.11 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.569ᵃ	.323	.203	.51603	.323	2.677	5	28	.042

Since R=0.569 then there is a moderate to strong positive correlation between service quality and customer retention. However R2=0.323 suggests that the strength of the relationship is moderate.

4.6 Discussion of Findings

The main issue addressed in this study is effects of service quality on customer retention among commercial banks in Kenya. The main objective was to establish the relationship between service quality and customer retention among commercial banks in Kenya. Generally there was positive relationship between service quality dimensions and customer retention.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section introduces the outline of the paper, conclusions drawn, and the suggestion of the study. The section starts with a brief synopsis of the motivation behind the study, look into objectives, methodology and summary of major findings before presenting the conclusion and recommendations.

5.2 Summary of Findings

This study sought to investigate the effects of service quality on customer retention among commercial banks in Kenya. The exploration was guided by the following objective, to investigate the relationship between service quality practices and customer retention among commercial banks in Kenya. The study used regression analysis to find the relationship between service quality and customer retention (effective communication, customer trust, customer satisfaction, price changes, level of involvement). The study established a significant positive relationship. The regression model had positive coefficients of predictors (constraints) of the customer retention. This implies that any increase in any variable will substantially lead to increased customer retention. The results shows that service quality attributes are positively related to customer retention but if tested as an individual parameter they are not significant in explaining the level of retention.

5.3 Conclusion

From the research findings and the answers to the research questions, some conclusions can be made about the study. We conclude that tangibles, reliability, responsiveness, assurance and empathy are positively related to customer retention. Commercial banks

have tried to provide quality service but there is still a room for improvement because of the changing environment and technology. Banks should revise their service operations in order to meet customer needs and this will sustain or increase the rate of customer retention.

The study concluded that indeed commercial in Kenya were practicing service quality practices in the processes of service delivery to a moderate extend which had a positive effect on customer retention. The study further concluded that the adoption of service quality practices in commercial banks in Kenya had significant impact on customer retention. This relationship if properly harnessed could be used to ensure efficient and timely service delivery in the public health facilities.

5.4 Recommendations

Some of the recommendations that can be made as a results of the findings of this study and which would go a long way in improving service quality practices among commercial banks in Kenya are assurance that is sufficient ATM machine with stable network, easiness to reach bank services lastly sincere interest in solving customers problems i.e. reliability. The policy makers will develop policies which will improve the overall service delivery process and point out all the areas which needs some improvements. The study will also benefit all the customers in commercial banks and students as well for future reference.

5.6 Areas for Future Research

The research was carried out on effects of service quality on customer retention among commercial banks in Kenya. Based on the findings the study recommends also areas to be researched further. Moreover, further studies should be done to investigate how

investment on service quality practices affects customer retention in public and private organizations in Kenya or the effects of service quality on customer retention in other organization apart from banks.

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APPENDICES

Appendix I: Questionnaire

A Survey on the Effects of Service Quality on Customer Retention among Commercial Banks in Kenya.

Dear sir/madam,

You are invited to take part in research project on effects of service quality on customer retention among commercial banks in Kenya.

The objective of the study is to investigate the relationship between service quality practices and customer retention. The survey therefore contains questions relating to service quality, customer retention and some personal information. The questionnaire will take about 10 minutes. It will be collected by the one who gave it to you.

Participation in this research is voluntary. Your response will be anonymous. The data from the survey will be used solely for the purpose of academic research and no other purpose.

Thank you very much for your participation. Your views are highly valued and will go a long way in determining the successful completion of this survey.

Yours faithfully,

Winnie Sidi Daniel

Please answer all questions in this section (tick appropriately)

Section A: General information

1. Name of the bank…………………………………………………………

2. Gender   Male ( )   Female ( )

3. Age (in years)

Between 18-30( )   between 31-40( )   between 41-50( )   above 50( )

4. For how long have you been a customer of this bank?

Less than 1year ( )   1-4 years ( )   5-9 years ( )   above 10 years ( )

5. Do you intend to continue banking with this bank in the next 5 years?

   Yes ( )   No ( )   Undecided ( )

Section B: Service Quality

6. Which service qualities have influenced you to remain a customer of the bank? Please show the extent do you think the features described in the statements below has influenced you by ticking the right box provided for each row;-

Statements	Rating keys				
	1 **Strongly** **disagree**	**2** **Disagree**	**3** **Neutral**	**4** **Agree**	**5** **Strongly** **agree**
Tangibles					
The physical appearance of the bank i.e tidiness					
The appearance of bank employees.					
Reliability					

Bank shows sincere interest in solving my problem.					
Bank operates its activities in accurate and errors free record.					
Responsiveness					
Bank employees are responsive to give me information about When services are to be performed.					
Bank employees are responsive to give me prompt service.					
Assurance					
Sufficient number of ATM machine with stable network.					
Easiness to reach bank services.					
Competence and knowledge of bank employees in solving customers' problems.					
Empathy					
Bank employees understands my specific needs.					
Bank operating hours convenient to me.					

Section C: Customer Retention

	Ratings				
Statements	**1**	**2**	**3**	**4**	**5**
	Strongly	**Disagree**	**Neutral**	**Agree**	**Strongly**

	disagree				agree
Retaining customers improves profitability of the bank.					
Customer retention is an indicator of satisfied customer.					
Introduction of new products will lead to customer retention.					
Training employees will increase customer retention.					
Customer feedback and follow ups will lead to customer retention.					
Effective communication leads to customer retention.					
Level of customer involvement increase customer retention.					
Price changes determine customer retention.					
Account opening of existing customers indicates customer retention.					
Customer trust increase customer retention.					

Appendix II: List of Commercial Banks

African Banking Corporation Limited

Bank of Africa Kenya Limited

Bank of Baroda (K) Limited

Bank of India

Barclays Bank of Kenya Limited

CfC Stanbic Bank Limited

Charterhouse Bank Limited

Chase Bank (K) Limited

Citibank N.A Kenya

Commercial Bank of Africa Limited

Consolidated Bank of Kenya Limited

Co-operative Bank of Kenya Limited

Credit Bank Limited

Development Bank of Kenya Limited

Diamond Trust Bank Kenya Limited

Ecobank Kenya Limited

Equatorial Commercial Bank Limited

Equity Bank Kenya Limited

Family Bank Limited

Fidelity Commercial Bank Limited

First Community Bank Limited

Guaranty Trust Bank (K) Ltd

Giro Commercial Bank Limited

Guardian Bank Limited

Gulf African Bank Limited

Habib Bank A.G Zurich

Habib Bank Limited

Imperial Bank Limited

I & M Bank Limited

Jamii Bora Bank Limited

KCB Bank Kenya Limited

K-Rep Bank Limited

Middle East Bank (K) Limited

National Bank of Kenya Limited

NIC Bank Limited

Oriental Commercial Bank Limited

Paramount Universal Bank Limited

Prime Bank Limited

Standard Chartered Bank Kenya Limited

Trans-National Bank Limited

UBA Kenya Bank Limited

Victoria Commercial Bank Limited

Source: CBK (2016)

Appendix III: Correlations

Correlations

		Customer Retention	Tangibles	Reliability	Responsiveness	Assurance	Empathy
Pearson Correlation	Customer Retention	1.000	.364	.468	.370	.446	.283
	Tangibles	.364	1.000	.288	.296	.346	.202
	Reliability	.468	.288	1.000	.348	.598	.320
	Responsiveness	.370	.296	.348	1.000	.476	.118
	Assurance	.446	.346	.598	.476	1.000	.547
	Empathy	.283	.202	.320	.118	.547	1.000
Sig. (1-tailed)	Customer Retention	.	.017	.003	.016	.004	.052
	Tangibles	.017	.	.049	.044	.022	.126
	Reliability	.003	.049	.	.022	.000	.033
	Responsiveness	.016	.044	.022	.	.002	.253
	Assurance	.004	.022	.000	.002	.	.000
	Empathy	.052	.126	.033	.253	.000	.
N	Customer Retention	34	34	34	34	34	34
	Tangibles	34	34	34	34	34	34
	Reliability	34	34	34	34	34	34
	Responsiveness	34	34	34	34	34	34
	Assurance	34	34	34	34	34	34
	Empathy	34	34	34	34	34	34