

**COST CUTTING PRACTICES AND SERVICE QUALITY
AMONG COMMERCIAL BANKS IN KENYA**

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DECLARATION

STUDENT'S DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

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SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this project to my wife Hellen and our son Liam as well as to my mother, sisters, brother, nephews and nieces who supported and encouraged me in my academics.

ACKNOWLEDGEMENT

My first gratitude goes to the Almighty God for enabling and empowering me through my academic achievements. I am great full to the University of Nairobi MBA teaching staff for the knowledge I have acquired from them. My vote of thanks goes to my supervisor, Mr. Onserio Nyamwange for his objective criticism, feedback and friendly guidance throughout the entire period of proposal writing, research process to the final report writing. I also thank all my fellow students and friends who through their interaction, companionship and experiences shared helped broaden my knowledge while undertaking my studies. I will be forever be indebted to my family for being there for me and special thanks to all who knowingly or otherwise had positive contributions to the successful completion of this research project.

ABSTRACT

The study sought is to establish the effect of the cost cutting practices on service quality in commercial banks. This study used a descriptive research design. The target respondents included the operations managers from the head offices of each bank. In addition, the study collected data from two customers from each bank. The study made use of a survey questionnaire. Quantitative data collected was analyzed by the use of descriptive statistics. The qualitative data from the open ended questions were analyzed using content analysis. In addition, the study conducted a Chi square to test the study hypotheses.

The study established that banks have implemented termination planning to reduce training costs, laying off direct labour to reduce trade union and group costs and laying off staff to reduce direct labour cost to a great extent. Employee pay reduction practices implemented in the banks operations to cut cost to a great extent include freeze or reduction in planned pay rise, pursuing employee benefits and allowances cost reduction and pension cost-alignment initiative. The study deduced that process automation, rolling out new and cheaper services and reviewing plan options/developing contingency plans were implemented to a great extent.

The study concludes that the banks adopt more of the longer-term strategic cost initiatives such as laying off staff, retirement, termination planning, pay reduction practices, shrinking of product portfolio, outsourcing of cleaning and sanitary services and security services, flexible work option and office restructuring. The study also concludes that the cost cutting practices affect various facets of service quality such as reliability, responsiveness, assurance, empathy and tangible attributes of services provided. The study recommends that to ensure service quality provision is at exceptional levels even with various cost cutting practices, it is essential to have written policies and staff training on both procedural and personal aspects of service delivery. The management should also establish policies such as part-time employment, lactation breaks for nursing mothers, temporary employment, changing hours of service and compressed work weeks using other companies such as those in the telecommunication industry that have low effect on the service quality.

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ABBREVIATIONS

CBK	-	Central Bank of Kenya
KBA	-	Kenya Bankers Association
KCB	-	Kenya Commercial Bank
NBFIs	-	non-bank financial institutions
RATER	-	Reliability, Responsiveness, Assurance, Empathy, and Tangibles
SERVQUAL	-	Service Quality
SPSS	-	Statistical Package for Social Sciences

CHAPTER ONE: INTRODUCTION

1.1 Background

The present business situation accompanied by the economic downturn has severely affected the operations and business status of various industries. The service industry has also got affected by the economic recession. The volatility of the economic factors such as that in the money market added to the predicament of hitherto profitable organizations. To stay competitive and to meet shareholder expectations the companies are abridged to trim down their direct costs and operational expenses without compromising on the quality of their services (Lin, 2009). Reduction in cost is the only major alternative for the management to meet the fluctuating demands.

Due to the recession, the efficiency and profitability of numerous organizations got reduced considerably, which forced them towards cutting the cost and plummeting the labor force in order to survive in the market. In most cases, processes that were not central to the organization's operations are rationalized and management focuses more on strategic or core processes (Schulman, Harmer, Dunleavy and Lusk, 2009). Managers had put into consideration the cost, time and quality of activities performed by employees or machines throughout an entire organization to realize the major goals of business process improvement, process simplification and enhancement.

The aim of all companies is incessantly to improve their products and/or services. Cost-saving endeavors often require certain changes to take place within the organization. In the event of such alterations, the psychological contract is often violated, which may have a positive or negative effect on the affected staff. Management expects to get additional work done with fewer employees, who in turn

are expected to keep up the service quality. Those that remain become utterly demotivated; they experience less job satisfaction and demonstrate less commitment to their job which may disapprovingly affect the service quality (Akbaba, 2006). However, a few may even embrace the changes for the reason that to them it may mean bigger and better challenges.

In today's economy numerous companies are cutting back. The managements are under pressure to lower fixed costs of conducting business, while maintaining or improving profit margins. This is an extremely challenging and taxing undertaking and the choices they make will most probably have a greater long-term effect on their companies than they may recognize today. Too often, business decisions are made hurriedly due to immediate economic situation which, though for the moment decreasing costs on a weekly or monthly basis, in fact cost the organization far more in the long-run.

Losing quality of service to cut back costs is in effect placing a greater price on short term savings than the value of future customer loyalty and the organization's reputation. According to Weber and Sparks (2004), the management need to look very cautiously at the effect any and all cost cutting strategies may have long term. If at all possible, the managers should integrate strategic marketing into their decisions using cost effective tools readily obtainable today. The return the management may get by intelligently and resolutely controlling the organization's costs while marketing efficiently, may far overshadow the savings they will find by targeting the usual suspects in cutting overhead. But no matter what the management does, no matter how tight things become, sacrificing service quality will prove disastrous to the company in the long run.

1.1.1 Cost Cutting Practices

Companies apportion money into two main buckets - revenue and cost. In hard economic times, when income is harder to come by, organizations often turn to cost cutting initiatives. Cost cutting, cost reduction, consolidation or cost management has become major planning topics in all competitive markets. Leaders recognize numerous strategies for reducing costs while maintaining services quality, including protecting core services (i.e., the services most vital to the organization and its constituency), developing emergency plans, and vigilantly examining overhead costs (Lin, 2010). Because cost cutting affects an organization's bottomline directly, various types of cost cutting can be the quickest way organizations can amplify their market value. The most important cost cutting strategies include reviewing plan options, retirement/termination planning, freeze or diminution in planned pay rise and flexible work option to ease costs (Hinton and Schaeffer 2004). The company management has restricted control over the direct costs. Going blindly for cheaper raw materials have a direct effect on the quality of the end products, in that way leading to customer dissatisfaction.

Blindly cutting costs is an extremely narrow-minded view that can shave costs and increase profits in the short term, but may harm the business badly in the long term. Not only may it hurt employee morale but it may push away customers, which may be worse, in the long term. Choi and Mattila (2008) indicated that if the company management focus only on costs, costs tends to go up and quality declines over time. If you focus chiefly on quality, costs tend to go down and quality rises. So, the short term implication of deep cost cutting is unavoidably a drop in quality in the service level.

1.1.2 Service Quality

High quality of service is considered an essential determinant of the long-term profitability of service organizations (Hinton and Schaeffer 2004). Service quality is defined as the determinant of how well the service level offered matches the customer expectations (Taylor, 2004; Pakdil and Aydin, 2007). According to Parasuraman et al. (1985), customers utilize a variety of pre-purchase information sources to reduce risk. The team implemented studies that resulted in isolation of five dimensions that customer can use to evaluate service quality. The dimensions: Reliability, Responsiveness, Assurance, Empathy, and Tangibles (abbreviated RATER) are used to measure perceived service based on the SERVQUAL instrument.

In today's unstable economy, services provided by companies have to create value satisfactions (Hinton and Schaeffer 2004). To be appreciated by customers, services received have to achieve a certain standard of quality as set by the customers. For an organization to be alleged as creating value that is satisfying, it has to offer its services with the kind of flamboyance that excites and stimulates its customers (Kotler, Armstrong, Saunders and Wong, 2000). This needs regular beefing up customer satisfaction levels during the service delivery process in order to meet and, hopefully, exceed customer expectations.

1.1.3 Commercial Banks in Kenya

The Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK), govern the Banking industry in Kenya. The banking sector was liberalised in 1995 and exchange controls lifted. The Central Bank of Kenya, which falls under the Minister for Finance's docket, is responsible for formulating and implementing monetary policy

and fostering the liquidity, solvency and proper functioning of the financial system. The Central Bank of Kenya publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines. Banks in Kenya have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and addresses issues affecting its members.

There are forty-four banks and non-bank financial institutions, fifteen micro finance institutions and forty-eight foreign exchange bureaus in Kenya. Thirty-five of the banks, most of which are small to medium sized, are locally owned. The industry is dominated by a few large banks most of which are foreign-owned and yet some partially locally owned. Six of the major banks are listed on the Nairobi Stock Exchange. The commercial banks and non-banking financial institutions offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking.

The number of commercial banks in the sector declined to 44 in December 2005 from 48 in June 2005 following a merger between one bank and one building society and one bank going under. Other non-bank financial institutions (NBFIs) include mortgage finance companies, building societies and SACCOs, which also provide basic banking services. (Monthly economic review; Jan 2006 issue)

It is noted in the Central Bank of Kenya Supervision Annual Report (2010) that the banking system remained stable during the year 2010 and recorded remarkable increase in levels of profitability. The overall audited performance of the banking sector measured in terms of capital adequacy, asset quality, liquidity and earnings remained fair, based on the Central Bank's internal rating system. The sector

however, has continued to be faced with a number of challenges. These include reduced business activity arising from slowdown in economic growth, and attempts made during the year aim at re-introducing interest rate controls. The stock of non-performing loans still poses a major challenge.

In recent years, a number of mergers and acquisitions have taken place in commercial banks. Some of the mergers have been triggered by the need to meet the increasing minimum core capital requirements, and also to enhance institutions' market share in the highly competitive local banking environment through the resulting synergies. Over the last few years, there has been a tendency by some banks to reduce the number of their branches. This has in most cases been done with the objective of cutting down costs through staff reduction and to offer quality services to customers.

1.2 Statement of the Problem

Corporate leaders are under continuous pressure to add value to their institutions. The methods used and approaches taken by the company management to achieve cost saving, often affect the employees of the organization as well as their customers (Chen et al., 2009). Cost cutting is exceptionally vital in any organization. It is part of the basic rule book, the organization has to keep the overhead down in order to be profitable. Cost cutting is complicated and there are so many ramifications if one goes too far. The challenge for most businesses is to reduce costs in a way that has the least effect on the quality and sustainability of their services (Kuo et al, 2009). The need to save costs and improve service quality should be each organization's goal. Managers should for that reason have a clear understanding of the ideas behind cost saving.

Commercial banks in Kenya have mainly been concerned with layoffs of employees (retrenchment of non-crucial staff and offering voluntary retrenchment), the

companies have embarked on a restructuring process to trim the management teams and cut down on huge salary budget for the executives as overpaid managers have been eating into returns as well as undertaking other cost cutting measures (CBK, 2011). This helps in reducing overhead costs so that they match the income generation capacity to current expenditure. Rationalization of branches is also one of the cost cutting measures which banks take.

One main strategy used by companies in the banking industry in a bid to cut cost is downsizing. The low staffing level is an area of great concern. The cost savings initiatives had a negative impact on the employees as a whole. The psychological contract seems to have been violated and employees feel that they have been done an injustice. According to Joan (2004), downsizing results in detrimental effects on the work force quality if not implemented appropriately. The banking organizations as a result might lose their market share and experience high employees' turnovers, diluting the workforce quality and therefore the quality of services offered. People complain about late deliveries, rude or incompetent personnel and needlessly complicated procedures. They express frustration about mistakes on their credit card bills or bank statements, mutter about poor value, and sigh as they are forced to wait in line almost everywhere they go.

Locally, some studies have been done on various aspects of cost cutting and service quality. Ngure (2008) investigated the cost control practices at the Kenya Utalii College. His study found that organizations control their costs to generate new revenue and protect their core services and planning for contingencies. They further established that organizations can improve their capacity to generate revenues by engaging their staff, using data to communicate the impact of their work, and considering cost control strategies/programs and activities.

Further, Mburu (2009) conducted a study on passengers' perceptions of low cost airlines and full service Carriers a case study of Fly 540 and Kenya Airways and found that airline companies have implemented cuts in a way that links the cost reduction to a more motivating objective, fostering employee involvement and commitment. However, majority of the customers perceive the full service Carriers to offer the best quality as compared to low cost airlines. Gachie (2008) did an evaluation of service quality in Kenyan commercial banks. The study found that various measures that aligned with banks' goals and help maintain the quality of their services. While Mwabu (2009) conducted a survey of the viewers perceived service quality of Television stations in Nairobi and found that there were variations on how viewers perceive service quality of Television stations owing to the market reach and content of the service offered by various TV stations. However, none of these studies has specified on the effects of cost cutting on quality of services in the banking industry. This is despite the decline in managerial staff by 5.5 per cent in 2011 attributed to cost-cutting initiatives as banks try to manage their expanding wage bill (CBK. 2011). This study therefore sought to fill this gap by establishing the effects of cost cutting on quality of services in the banking industry with reference to the commercial banks in Kenya. The study sought answers to the following research questions: What are the cost cutting practices used by commercial banks in Kenya? What is the effect of the cost cutting practices on service quality in commercial banks?

1.3 Study Objective

- i. To determine the cost cutting practices used by commercial banks in Kenya
- ii. To establish the effect of the cost cutting practices on service quality in commercial banks

1.4 Value of the Study

Costs are the bases for budgeting and eventual cost control. It keeps the quality aspect of the business under the spotlight. Organizations should decide how to deal with overheads since many quality related costs are normally included as part of the overhead, while others are treated as direct costs and attract a proportion of overheads.

The study would act as a guide of how banks and other organizations should handle cost cutting. It would therefore assist the management on how to go about cost cutting without compromising on workforce quality. The study findings would be of great significance to the management in the banking industry as they would fully understand the effect of cost cutting in the banking industry. This will assist management in planning for any required improvements in service quality in order to attract new customers and also retain their existing ones. The study is imperative because it will offer insight on where, how, when and what needs to be done to meet and hopefully exceed customer expectations.

The study findings would be of great importance to the researcher, as it will contribute to both theoretical and practical knowledge on the effect of cost cutting in the banking industry and other organizations. Scholars would find it important as it would increase the body of knowledge in this area. It would also assist the researchers in doing further studies on the same. It is hoped that the knowledge gained from the study could serve as a basis for planning and a point of reference for further studies in the field of cost cutting.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are concept of cost cutting, cost cutting and quality of services, management of cost cutting strategy in service organizations, need for cost saving, strategies of cost cutting, employee behavior with cost cutting and the Kenyan context of cost cutting and quality.

2.2 Cost Cutting Practices

Cost cutting refers to the measures implemented by an organization to reduce its expenses and improve profitability. Cost-cutting can be motivated in an emotionally compelling in a positive way by tying the effort to a positive outcome for the business and its people. Doing so requires meticulous structuring and implementation of efforts that obtain employee buying and commitment to obligatory decisions and behavior changes. It also involves a convincing motivating vision of what the business can become. Cost cutting measures may include laying off staff, reducing employee pay, switching to a less expensive employee health insurance program, downsizing to a smaller office, lowering monthly bills, changing hours of service and restructuring debt (Nimocks, Rosiello and Wright, 2005).

Nimocks et al, (2005) argue that nearly all cost-reduction initiatives have a simple four-step process at heart: Structure the effort, including where a set of teams will focus efforts to uncover cost reduction opportunities; analyze the opportunities and make recommendations; decide on what cost reduction actions will be taken; and

implement those actions. Globalization introduces intense competition; the changes in the global ecosystem brought a sea change in the way companies do business.

The management has limited control over the direct costs. Going blindly for cheaper raw materials have a direct impact on the quality of the end products, thereby leading to customer dissatisfaction (Schulman et al, 2009). One of the options in cutting direct costs effectively utilized by companies such as commercial banks is to produce products and services at reduced costs. They also implemented stringent quality control measures and a comprehensive supplier sourcing method.

Identification of the cost centres that utilize a good amount of resources disproportionate to their yield is a continuous process (Cascio, 2005). Methods like activity based costing system enables to track the costs to various processes related to a job. It helps to keep check over those activities that have a negative impact on the overall performance. Techniques like “lean six sigma” reduce the cost of production by regulating wastages without compromising the quality of the products manufactured and services rendered. It also facilitates the adoption of standardization procedures which have a great impact on waste minimization.

Senior banking executives face a vexing dilemma. In this difficult economic environment, there is great urgency to reduce costs and improve efficiency. But cutting indiscriminately or too deeply may severely hamper the ability to grow revenues when the economic outlook improves. Cost saving initiatives always affect employer-employee relationships, either positively or negatively, depending on the approaches that management use to relate to employees. According to Schuler and

Harris (1998), new world-class companies of all nations found that improved quality resulted in improved cost and productivity.

Too often, when a cost-reduction effort is launched, employees hear different messages from different senior leaders. Since the biggest cost to companies comes from human resources, various cost elements, for example direct labour cost and training costs need to be analyzed (Conner, 2003). The criteria used and approaches taken by management to achieve cost saving, often impact on the employees of the organisation as well as their customers.

Cost of production and human resources among others are rising each year (Williams, 2004). In recent economic down turn it becomes more important to make cost reduction program a major initiative in industry. Companies are finding it difficult to retain people and are laying off people which is unprecedented in recent history of industrial recession.

Levit (1994) states that there is no doubt that laying off direct labour personnel will immediately reduce the payable burdens associated with labour group. If labour content remains constant, then labour cost may even go up if overtime or additional shifts are required to meet production requirements.

Nimocks et al (2005) indicate that salary reduction initiatives are not well-executed. The objectives are unclear, the process is not transparent, key constituencies feel excluded, and the initiative focuses on arbitrary objectives (e.g., pursuing cost reduction in only one part of the business). Such poor process discipline not only leaves money on the table, but is also demotivating to employees. When employees believe they are being treated fairly—when they feel heard, understand how and why decisions are being made, and believe they are respected—they are more likely to buy

into a cost-alignment initiative. A lot of hard work is required—careful and frequent two-way communication, detailed process- and meeting-planning, and reaching milestones.

It is critical that companies planning cost reduction initiatives such as switching to a less expensive employee health insurance program obtain the positive emotional commitment of their employees to support decisions and to commit to behavior change that reduces costs. A truly committed workforce can reduce costs more and sustain the reductions longer than a workforce under duress.

In a weak economy, investing in new products may just add unwanted complexity to the product portfolio without generating profits. For some banks, it may make sense to shrink their product portfolio and channel the savings into more strategic, longer-term programs such as credit risk management.

According to Schulman et al (2009) process automation is another undertaking with which few would argue. But instead of automating processes on a piecemeal basis, banks may find that, upon analyzing their processes from end-to-end across the enterprise, several processes can be eliminated altogether. Further, the automation help in downsizing to a smaller office and changing hours of service. Sometimes, across-the-board cutbacks don't go far enough. A uniform 10 percent reduction across expense budgets makes little sense when a bank's lending function could withstand deeper cuts due to sharply depressed loan demand.

For cost cutting, the first step is to partition the work on the basis of criticality. The cost cutting measures ought to be made on those projects that are of lesser priority to perk up the operating margins ensuing in higher profitability. For the reduction of the expenses the organizations can opt for certain techniques which accrue the return on a

long term basis. Outsourcing of secondary activities to low cost companies is a major development of the current times (Sahdev, 2003). Outsourcing helps in using the organization's resources to the core activities. Whatever be the method of approach of outsourcing, cost cutting measures should never affect the quality of the service delivered by the organization. It is discreet for an organization to be watchful at all times to prevent the organization from making uncalled for compromises.

Flexible work programs are work arrangements wherein employees are given greater scheduling freedom in how they fulfill the obligations of their positions. The most commonplace of these programs is flextime, which gives workers far greater leeway in terms of the time when they begin and end work, provided they put in the total number of hours required by the employer (Nimocks et al, 2005). Other common flexible working arrangements involve telecommuting, job-sharing, and compressed work weeks.

Workplace flexibility for lower wage workers is an area in which there is great potential for impact and change. Flexible schedules are an effective means of managing personnel costs, in particular overtime costs, which is a win-win for employees and the business. Flexibility is cost and resource neutral when planned for, and personnel and productivity costs of unscheduled absences are avoided. By building flexibility into the staffing models, some of the companies reduce overtime costs and offer more control and choice to employees over their working hours. In addition, some of the companies have documented productivity gains and cycle time reductions as a result of implementing flexible work options (Conner, 2003).

From telecommuting to reduced hours, flexible work options were one tactic companies used to help ease economic pressures during the recession. Potentially

improves customer service and productivity by meeting peak demands without incurring additional costs. Examples of these include: flexibility in hours work, home based work, lactation breaks for nursing mothers and working part-time or job-sharing.

Corporate downsizing results from both poor economic conditions and company decisions to eliminate jobs in order to cut costs and maintain or achieve specific levels of profitability. Restructuring programs sometimes take years to bear fruit because of ensuing employee confusion and the amount of time it takes for employees to adjust to their new roles and responsibilities (Cascio, 2005). Perhaps a company can downsize to a smaller office suite without losing needed room. If it can't downsize, try renegotiating a lease for smaller rental payments. Discontinue the office cleaning service and do it yourself.

Eliminating non-core aspects of a business may also include the reduction of bureaucracy and the number of corporate layers. Since dense bureaucracy frequently causes delays in communication and decision-making, the reduction of bureaucracy may help bring about a more efficient and responsive corporate structure that can implement new ideas more quickly (Conner, 2003). Besides laying off workers, restructuring efforts may involve closing plants, selling non-core operations, acquiring or merging with related companies, and over-hauling the internal structure of a company.

2.3 Service Quality

Ghobadian et al. (1994) posit that most of the Service Quality definitions fall within the customer led category. Jain and Gupta (2004) defined Service Quality “whether in

reference to a product or service” as “the consumers’ evaluative judgment about an entity’s overall excellence or superiority in providing desired benefits” (p. 327).

As Service quality relates to meeting customers’ needs, the study will be looking at perceived Service quality in order to understand consumers. The construct of Quality in the services literature focuses on Perceived Quality. It is generally agreed that Service Quality is an attitude or global judgment about the superiority of a service, although the exact nature of this attitude is not agreed (Parasuraman, Zeithaml and Berry, 2005).

2.3.1 Models of Service Quality

Organizations around the world are realizing the significance of customer-centered philosophies in their day to day operation. To this end, they are turning to quality management approaches to help managing their businesses. Several conceptual models have been developed by different researchers for measuring service quality. Parasuraman et al. (1985) resolved that customer perceptions are influenced by a series of “gaps”. The gaps refer to ways to mis-specify and mismanage the definition of what is most sought after by customers when seeking a service offering. According to Lin (2010), the gap model is one of the best received and most heuristically valuable contributions to the services literature.

The second service quality model widely accepted in reference sources is the GAP quality model. This model was developed by Parasuraman *et al.* (1985), highlighting that service quality is a function of consumer perception, i.e. the way how consumers perceive a service, and expectations formed before purchasing a given service.

GAP model was originally based on ten basic service quality dimensions, pointing to the initial influence of SERVQUAL service quality. The development of GAP service quality model has led to the reduction of the initial number of service quality dimension to five basic ones. The dominant model of the customer's cognitive process of evaluating service quality is the "disconfirmation of expectations" model (Oliver, 1980) which has been operationalized by Parasuraman et al. (2005) with the SERVQUAL method of measuring service quality.

Based on the discovery of those gaps in expectations vis-a-vis service delivery, Parasuraman et al (2005) organized the dimensions in the form of a 22-item instrument, SERVQUAL that measures both the expectations and customer perception of the quality encounter. Not all organizations measuring Service Quality may follow the model postulated by Parasuraman et al, to measure service quality hence it is not a worldwide measurement but guides organizations (Jain and Gupta, 2004). Doyle (2000) developed an internal service quality model which is used by some organization.

This research will adopt the most frequently-used approaches to measure service quality which is the RATER model. The RATER model was developed from the SERVQUAL model, both of which were from the research work of Zeithaml, Parasuraman and Berry. The RATER model, developed by Zeitham et al (1992), defines five dimensions that customers are believed to consider in their assessments of service quality. These five dimensions have been found to be relevant for a wide range of organizations and sectors, although the importance of each dimension will vary from industry to industry. The model is used by organizations to identify and

assess customer expectations, to plan and improve services, and to measure customer satisfaction.

The quality customer service is the foundation for long run businesses. RATER model will regulate the business process, solutions and services. This process will refine the quality of business solutions and customer support along the five dimensions (Stewart and Grout, 2001).

2.4 Measures of Service Quality

This section looks at the various measure of service quality in an organization by looking at the reliability, responsiveness, empathy, assurance and the tangibles.

Competitive advantage in service businesses derives largely from the service provider's ability to deliver high quality service. Previous research has shown that service reliability raises customer satisfaction, which (in turn) relates to repurchase intentions, customer retention, market share, and financial return (Soteriou and Chase, 2000).

Reliability is the ability to perform the promised service consistently, dependably, and accurately. Reliability has often been cited as the most important dimension in assessing the quality of service and is therefore a fundamental requirement for businesses to compete in the marketplace. However, many services are labor intensive and human service providers make mistakes. Consequently, a high percentage of service failures are a result of human error in the delivery process, which may take the form of either inappropriate intentions or actions not proceeding as intended (Stewart and Grout, 2001). Consequently, it is difficult for service managers to achieve high quality, while also controlling costs.

The responsiveness Service Quality Dimension refers to the willingness of the company to help its customers in providing them with a good, quality and fast service. When a customer requests for assistance, they expect an appropriate and fast response. Responsiveness is the willingness to help customers promptly Parasuraman et al. (2005). Responsiveness refers to the process of taking action quickly to meet the specific needs of customers. It means keeping customers informed about ongoing activity to meet their requests and giving them a sense that fulfilling their requests is important. Customers can be quite tolerant as long as they believe the customer service staff are doing the best they can to help and if they have information about the status of their request.

Responsiveness is very important because if you provide customers with what they need in a timely fashion, they will be satisfied. Replying to a customer request promptly is a good example of responsiveness. Typically, responsiveness is the second most critical aspect of services to customers (Lin, 2009). Being responsive involves circumventing customers waiting for no apparent reason.

Empathy involves treating customers as unique individuals Parasuraman et al. (2005). The caring and individualized attention provided to customers includes approachability and ease of contact with the service provider and their efforts to understand customers' needs. A company can easily understand customer requirements through exhibiting empathy. Listening to customers' concerns and proving them with a positive solution is how you show empathy. By asking themselves how they would wanted to be treated if they were the customer, service delivery staff can be able to visualize empathy as they should deliver it. It is the action of understanding, being aware of, being sensitive to, and vicariously experiencing the feelings, thoughts, and experience of another of either the past or present without

having the feelings, thoughts, and experience fully communicated in an objectively explicit manner.

Gaining the customer's trust is very important for a service provider in order to reduce the customer's perceived level of risk *ex ante* (Taylor, 2004). Since consumers cannot see the outcomes of their service encounter ahead of time, they will judge a service provider based on cues that they encounter as they shop. For example, a consumer who may encounter a brochure with grammatically incorrect language may well lose confidence in the ability of that service provider to deliver the necessary services in a flawless manner. Boulding and Kirmani (2004) have shown that providing product warranties enhances consumers' perception of unobservable service quality. Consumers reason that since the firm is willing to stand behind its product, it must be of a higher quality.

Service quality has been the focus of many studies in many different industries, including the public service (Sahdev, 2003), tourism and the motor industry. In the case of the different environment, service quality studies have been conducted in various countries, as well as in different types of medical environments as well as among in-patients and out-patients.

Physical evidence (tangibles) is critical in services as it is used as a cue to provide the client with an indication of the service offered, while it also impacts on the way in which the service is positioned and differentiated. Medical services are high in credence qualities, indicating the importance of tangibles (Akbaba, 2006). While physical evidence has formed part of the evaluation of service quality, the specific effect on service quality has not been determined, and research into the tangible aspect in services has been limited.

2.5 Effect of Cost Cutting on Quality

Delivering a quality service means conforming to customers' expectations on a consistent basis. Perceived service quality can be evaluated as the degree and direction of discrepancy between consumers' perceptions and their expectations about the particular service provided by the service organization (Chen et al., 2009).

In an era of cost cutting, quality expenditures must be made financially accountable. This managerial need has resulted in a new quality movement in the marketing literature, in which customer satisfaction and service quality are not only measured but also statistically related to customer retention and market share. The price elasticity of demand for a service holds significant implications for managers considering a price reduction in an effort to improve the net income for the stockholders and sustaining quality of services. The distinction between actual and perceived service quality is necessary to permit the possibility that cost reductions may result from quality improvements that are transparent to (or irrelevant to) the customer (Joan, 2004).

The literature on both market orientation and customer satisfaction provides considerable support for the effectiveness of the revenue expansion perspective, whereas the literature on both quality and operations provides equally impressive support for the effectiveness of the cost reduction perspective (Kuo et al, 2009). Losing quality of service to curtail costs is essentially placing a greater price on short term savings than the value of future client loyalty and organization's reputation. The cost-cutting and efficiency agenda will vary among regions and from bank to bank. For institutions most affected by the crisis, tactical cost reductions are the immediate priority. To achieve high performance, banks need the right balance between short-

term tactical cost decreases such as headcount reductions, and longer-term strategic cost initiatives such as streamlining processes or outsourcing certain noncore functions such as learning, human resources or finance and accounting.

Staff layoffs in Kenya seem like the most prevalent solutions available to management teams of companies faced with economic difficulty. The dynamism in the business environment dictates that executives continually change their strategies in order to remain relevant in the market place. Periods of economic slowdown are characterized by reduction of the purchasing power of the customers which ultimately depress the revenues of the firm (Lurie, 1998).

In 2007, in the wake of stiff competition in the mobile telephony and the banking sectors and in the subsequent years, service companies embarked on aggressive recruitment and talent search to mob-up the top management as a strategy to remain competitive and capture the requisite market share (Mwandembo, 2009). This was characterized by unprecedented 'poaching' of talent and professionals from competitor firms. The firms over-valued talent and offered astronomical perks to management staff. Executive compensation forms one of the fiercest debates on corporate governance. While one side argues that management boards must rein in lavish pay, another side contests that the market has to be left to decide. Proponents of the status quo suggest that with low salaries, companies would not attract top talent (Mwandembo, 2009). Their opponents argue that bidding for executive talent pushes compensation well beyond reason, hurting companies and their shareholders. Kenya Commercial Bank (KCB), Barclays Bank, Co-operative Bank and Safaricom moved fast in restructuring to trim down bloated management teams and cut down on high salary staff budgets.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. Specifically the following subsections are included; research design, target population, sample design, instrumentation, data collection and finally data analysis.

3.2 Research Design

This study used a descriptive research design. A descriptive research design attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction, (Cooper and Schindler, 2006). In this case, the research problem was the effects of cost cutting on quality of services in the service industry with specific reference to the Kenyan banking sector. Thus, this approach is appropriate for this study, since the researcher intended to collect detailed information through descriptions and is useful for identifying variables and hypothetical constructs.

3.3 Population

Target population in statistics is the specific population about which information is desired. The population of interest in this study comprised all the commercial banks in Kenya. There are 44 commercial banks in Kenya as of December 2011 (CBK Report, 2011). The study conducted a census survey owing to the small number of commercial banks in Kenya. The target respondents included the operations managers from the head offices of each bank. In addition, the study collected data from two

customers from each bank comprising a sample of 88 customers to avoid bias of the staff view in regard to service quality. Simple random sampling was used to select the customers.

3.4 Data Collection

The study made use of a survey questionnaire administered to each member of the sample population. The questionnaire consisted of both open and close-ended questions. The close-ended questions provided more structured responses to facilitate tangible recommendations. The closed ended questions were used to test the rating of various attributes and this helped in reducing the number of related responses in order to obtain more varied responses. The open-ended questions provided additional information that may not have been captured in the close-ended questions. The questionnaire (appendix II) was carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity and accuracy of data to be collected for the study. The questionnaire was divided into three subsections. Section A was dedicated to getting the respondents demographic data, section B looked at cost cutting practices while section C is on service quality.

The researcher administered the questionnaire individually to all respondents of the study. The researcher exercised care and control to ensure all questionnaires issued to the respondents are received and achieve this, the researcher maintained a register of questionnaires, which were sent, and which were received. The questionnaires were administered using a drop-and-pick-later method.

3.5 Data Analysis and Presentation

Before processing the responses, the completed questionnaires were edited for completeness and consistency. Quantitative data collected was analyzed by the use of descriptive statistics using Statistical Package for Social Sciences (SPSS V 17.0) and presented through percentages, means, standard deviations and frequencies. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS. Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis. The qualitative data from the open ended questions were analyzed using content analysis. In addition, the study conducted a Chi square to test the study hypotheses:

H_0 : Cost cutting does not affect service quality in commercial banks

H_1 : Cost cutting affects service quality in commercial banks

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND INTERPRETATIONS

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings. This chapter presents analysis of the data on the effect of cost cutting practices and service quality among commercial banks in Kenya. The chapter also provides the major findings and results of the study.

4.2 Response Rate

The researcher targeted a sample size of 132 respondents from which 124 filled in and returned the questionnaires making a response rate of 93%. This response rate was good and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

4.2.1 Demographic Information of the Bank Managers

The study sought to establish the background information of the manager including their gender, age, highest level of education and years of service/working period.

The findings show the gender of the bank managers. From the findings, the study established that the majority of bank managers were male as shown by 55.3% while females were 44.7% of the respondents. This shows that there are more male than females in the banks management.

On the age of the bank managers, the study found that the majority of the bank managers were between 36 – 45years (47.4%), 21.1% were aged between 46 – 55years, those aged between 26 – 35 years and 56 years and above were represented by a 13.2% each while 5.3% of the managers were under 25 years old. This shows that majority of the management staff are middle aged.

The study also sought to establish the bank managers' highest level of education. According to the findings, the majority of managers had a Bachelors' degree as shown by 65.8% of the respondents, 25.8% had a postgraduate degree while a measly 8.4% of the managers had a diploma/certificate.

On the years of service/working period in the bank, the findings in figure 4.4 show that 36.8% of the managers had worked for 1-10 years, 28.9% had worked for 20-30 years, 23.7% had worked for 10-20 years, 7.9% had worked for less than 1 year while 2.6% of the managers had worked in the bank for over 30 years.

On whether the banks adopt more of the short-term tactical cost decreases or the longer-term strategic cost initiatives, 55.3% of the managers said that their banks adopted long-term strategies more while 44.7% said they adopted short-term strategies.

4.3 Cost Cutting Practices

According to Nimocks, Rosiello and Wright (2005), cost cutting measures may include laying off staff, reducing employee pay, switching to a less expensive employee health insurance program, downsizing to a smaller office, lowering monthly bills, changing hours of service and restructuring debt.

4.3.1 Laying off Staff/ Retirement/Termination Planning

The study also sought to determine the extent that the banks have implemented Laying off Staff cost cutting practices into its operations.

Table 4. 1: Extent that the Banks have Implemented Laying Off Staff Cost Cutting Practices Into Its Operations

	Mean	Std. Deviation
Termination planning to reduce training costs	4.4053	0.98483
Laying off direct labour to reduce trade union and group costs	3.9737	0.80861
Laying off staff to reduce direct labour cost	3.5316	0.61798

From the findings, majority of the respondents were of the view that banks have implemented termination planning to reduce training costs, laying off direct labour to reduce trade union and group costs and laying off staff to reduce direct labour cost to a great extent as shown by a mean score of 4.4053, 3.9737 and 3.5316 respectively. This is consistent with Levit (1994) who observed that there is no doubt that laying off direct labour personnel will immediately reduce the payable burdens associated with labour group. If labour content remains constant, then labour cost may even go up if overtime or additional shifts are required to meet production requirements.

4.3.2 Reducing Employee Pay

The study also sought to determine the extent that the banks have implemented reduction of employee pay cost cutting practices into its operations.

Table 4. 2: Extent that the Banks Have Implemented Employee Pay Reduction Practices into Its Operations to Cut Cost

	Mean	Std. Deviation
Freeze or reduction in planned pay rise	4.3053	0.42801
Pursuing employee benefits and allowances cost reduction	3.7421	0.99394
Pension cost-alignment initiative	3.5895	0.68821
Switching to a less expensive employee health insurance program	3.3158	0.69311
Salary reduction initiatives	3.1842	0.80956

On the extent that the banks have implemented employee pay reduction practices into its operations to cut cost, majority of the respondents indicated that employee pay reduction practices implemented in the bank's operations to cut cost to a great extent include freeze or reduction in planned pay rise, pursuing employee benefits and allowances cost reduction and pension cost-alignment initiative as shown by a mean score of 4.3053, 3.7421 and 3.5895 respectively while switching to a less expensive employee health insurance program and salary reduction initiatives were employed

to a moderate extent as shown by a mean score of 3.3158 and 3.1842 respectively. This agrees with Nimocks et al (2005) who indicated that salary reduction initiatives are not well-executed. The objectives are unclear, the process is not transparent, key constituencies feel excluded, and the initiative focuses on arbitrary objectives (e.g., pursuing cost reduction in only one part of the business).

4.3.3 Shrinking Of Product Portfolio

The study further sought to determine the extent that the banks have implemented shrinking of product portfolio cost cutting practices into its operations.

Table 4. 3: Extent that the Banks Have Implemented Shrinking Of Product Portfolio into Its Operations to Cut Cost

	Mean	Std. Deviation
Process automation	4.4737	0.62632
Rolling out new and cheaper services	4.3842	0.96157
Reviewing plan options/developing contingency plans	4.1842	0.63598
Reducing the product portfolio	3.2105	0.66943

On the extent that the banks have implemented shrinking of product portfolio into its operations to cut cost, majority of the respondents indicated that process automation, rolling out new and cheaper services and reviewing plan options/developing contingency plans were implemented to a great extent as shown by a mean score of 4.4737, 4.3842 and 4.1842 respectively while reducing the product portfolio was

implemented to a moderate extent as shown by a mean score of 3.2105. This concurs with Williams (2004), who observed that in a weak economy, investing in new products may just add unwanted complexity to the product portfolio without generating profits. For some banks, it may make sense to shrink their product portfolio and channel the savings into more strategic, longer-term programs such as credit risk management.

4.3.4 Outsourcing of Secondary Activities

The respondents were requested to indicate the extent that the banks have implemented practices relating to outsourcing into its operations to cut down on cost.

Table 4. 4: Extent that the Banks Have Implemented Practices Relating To Outsourcing into Its Operations to Cut Down On Cost

	Mean	Std. Deviation
Outsourced Cleaning and sanitary Services	4.5632	0.82803
Out sourced Security services	4.5053	0.51101
Out sourced Mail delivery services	4.4737	0.80250
Utilizing a supply chain partner reduces the amount of staff resources needed	4.1053	0.85757
Organization's transportation costs	3.6316	0.86645

Majority of the managers indicated that the banks outsourced cleaning and sanitary services and out sourced security services to a very great extent as shown by a mean score of 4.5632 and 4.5053 respectively. They also reported that the banks outsourced mail delivery services, utilizing a supply chain partner reduces the amount of staff resources needed and organization's transportation costs to a great extent as shown by

a mean score of 4.4737, 4.1053 and 3.6316 respectively. This is in agreement with what Sahdev (2003) observed that outsourcing of secondary activities to low cost companies is a major development of the current times. Whatever be the method of approach of outsourcing, cost cutting measures should never affect the quality of the service delivered by the organization.

4.3.5 Flexible Work Option to Ease Costs

The study also required the respondent to indicate the extent that banks have implemented flexible work option practices into its operations to cut down on cost.

Table 4. 5: Extent that the Banks Have Implemented Flexible Work Option Practices into Its Operations to Cut Down On Cost

	Mean	Std. Deviation
Job sharing	4.1842	0.81149
Flextime	3.8947	0.99008
Part-time employment	3.2162	0.85424
Lactation breaks for nursing mothers	3.0789	0.96024
Temporary employment	3.0342	0.68012
Changing hours of service	2.8684	0.61798
Compressed work weeks	2.8684	0.86645
Telecommuting/ home based work	2.4263	0.96249

From the study, majority of the respondents indicated that the banks implemented job sharing and flextime to a great extent as shown by a mean score of 4.1842 and 3.8947 respectively. They also reported that to a moderate extent the banks implemented part-time employment as shown by a mean score of 3.2162, lactation breaks for

nursing mothers as shown by a mean score of 3.0789, temporary employment as shown by a mean score of 3.0342, changing hours of service and compressed work weeks as shown by a mean score of 2.8684 in each case while telecommuting/ home based work was implemented in the banks to a little extent as shown by a mean score of 2.4263. This is consistent with Conner (2003) who observed that flexible schedules are an effective means of managing personnel costs, in particular overtime costs, which is a win-win for employees and the business. Flexibility is cost and resource neutral when planned for, and personnel and productivity costs of unscheduled absences are avoided.

4.3.6 Downsizing to a Smaller Office

Table 4.6 shows the extent to which the banks have implemented practices related to downsizing to a smaller office into its operations to cut down on cost.

Table 4. 6: Extent that the Banks Have Implemented Practices Related To Downsizing to a Smaller Office into Its Operations to Cut Down On Cost

	Mean	Std. Deviation
Office Restructuring/ over -hauling the internal structure of a company	4.2105	0.84335
Reduction of bureaucracy and the number of corporate layers	4.0263	0.80250
Renegotiating a lease for smaller rental payments	3.3919	0.95860
Acquiring or merging with related companies	2.9211	0.84801
Discontinue the office cleaning service and do it yourself	2.1737	0.94402

From the findings the managers indicated that office restructuring/ over -hauling the internal structure of a company and reduction of bureaucracy and the number of corporate layers were implemented to a great extent as shown by a mean of 4.2105 and 4.0263 respectively, renegotiating a lease for smaller rental payments and acquiring or merging with related companies were implemented to a moderate extent as shown by a mean score of 3.3919 and 2.9211 respectively while discontinue the office cleaning service and do it themselves was implemented to a little extent as shown by a mean score of 2.1737. This is similar to what Cascio (2005) observed that perhaps a company can downsize to a smaller office suite without losing needed room. If it can't downsize, try renegotiating a lease for smaller rental payments.

4.3.7 Strategies to Ensure Employee Buy Into the Cost Cutting Initiatives

The study also enquired on the extent that various strategies ensure that the employee buy into the cost cutting initiatives taken by the bank.

Table 4. 7: Extent that Various Strategies Ensure That the Employee Buy Into the Cost Cutting Initiatives Taken By the Bank

	Mean	Std. Deviation
Careful and frequent two-way communication	4.4526	0.95003
Making employees understand how and why decisions are being made	4.1579	0.65334
Making employees feel heard	4.1316	0.93494
Detailed process- and meeting-planning	3.8684	0.99107
Making employees believe they are respected	3.2632	0.87828

Majority of the respondents were of the opinion that the strategies that ensure that the employee buy into the cost cutting initiatives taken by the bank to a great extent include careful and frequent two-way communication, making employees understand how and why decisions are being made, making employees feel heard and detailed process- and meeting-planning as shown by a mean score of 4.4526, 4.1579, 4.1316 and 3.8684 respectively while making employees believe they are respected only ensures to a moderate extent as shown by a mean score of 3.2632.

The respondents intimated that in order to minimize negative behaviour and increase quality in the event of cost cutting, the bank management should adopt contingency contracting, exercise dormant lines of credit, not offering lower prices to clients that aren't price sensitive, the banks should keep close track of their competitor's costs to ensure that they don't get left behind and lose valuable assignments from overbidding, or income from underbidding.

4.4 Findings From Customers

In a bid to establish the quality level of the bank, the study also sought information from the customers on their level of satisfaction with the service offered.

4.4.1 Customers Background Information

The study sought to establish the customers' gender, age, highest education level, whether the customer frequently interact with the bank with regard to service provision and duration in which the customer had been dealing with the bank.

The findings indicates the gender distribution of the customers. According to the figure majority of the customers were male (52.3%) and the rest (47.7%) were female.

The study sought to establish the age of the customers. Majority of the customers (41.9%) were aged between 26 and 35 years, 19.9% were 46 – 55 years, 18.6% were under 25years old, 16.3% were aged between 36 – 45years while 3.5% were aged 56years and above.

Further, the study sought to establish customers highest level of education. From the findings, most of the respondents 41.9% had certificate/diploma as their highest level of education, 26.7% had a bachelor's degree, 22.1% had secondary education 7% had primary education as their highest level of academic qualification while 2.3% had a masters degree.

The study sought to establish whether the customer frequently interact with the bank with regard to service provision. Majority of the respondents (76.7%) indicated that they frequently interact with the bank with regard to service provision while 23.3% of the respondents felt otherwise.

On the respondents' duration in which the customer had been dealing with the bank, the study established that most of the customers 37.2% had transacted with their respective banks for period of between 6 and 10 years, 32.6% for less than 5 years, 19.8% between 11 and 15 years 5.8% said above 21years while 4.7% said they had interacted with their banks for 16-20years.

4.4.2 Perceptions of the Reliability of Services Provided

The study sought to establish the perceptions of the reliability of various services provided by the banks. The study findings are presented in table 4.8.

Table 4. 8: Reliability Scale Item

	Mean	Std. Deviation
Performing services right the first time	4.0465	3.33575
Maintaining error free records	3.8023	0.89205
Ability to perform the promised service accurately and dependably	3.7907	0.93452
Providing services at the promised time	3.7558	0.86685
Dependability in handling customer's problems	3.5698	0.91447
Ability to provide services as promised	3.4706	1.00698

On the perceptions of the reliability of services provided the banks, the study found that the banks are good in performing services right the first time, maintaining error free records, ability to perform the promised service accurately and dependably, providing services at the promised time and dependability in handling customer's problems as shown by a mean score of 4.0465, 3.8023, 3.7907, 3.7558 and 3.5698 respectively while they were fair in their ability to provide services as promised as shown by a mean score of 3.4706. This is in line with Stewart and Grout (2001) that reliability is the ability to perform the promised service consistently, dependably, and accurately.

4.4.3 Perceptions of Responsiveness of Services

The study sought to establish the perceptions of the responsiveness of various services provided the banks. The study findings are presented in table 4.9.

Table 4. 9: Responsiveness Scale Item

	Mean	Std. Deviation
Understand exactly what each customer needs	4.0698	5.65226
Readiness of staff to respond to customers requests	4.0116	0.97612
Informs client when services will be performed	3.9651	0.87377
Prompt service to customers	3.9302	1.01507
Willingness by staff to help customers	3.8488	1.01190
Communicating regularly with the customer	3.6047	1.11965

On the perceptions of the responsiveness of services provided by the banks, the study found that the banks are good in understand exactly what each customer needs as shown by a mean score of 4.0698, readiness of staff to respond to customers requests as shown by a mean score of 4.0116, informing client when services will be performed as shown by a mean score of 3.9651, prompt service to customers as shown by a mean score of 3.9302, willingness by staff to help customers as shown by a mean score of 3.8488 and communicating regularly with the customer as shown by a mean score of 3.6047. This is consistent with Parasuraman et al. (2005) who indicated that when a customer requests for assistance, they expect an appropriate and fast response. Customers can be quite tolerant as long as they believe the customer

service staff are doing the best they can to help and if they have information about the status of their request.

4.4.4 Perceptions of Assurance of Services

The findings in table 4.10 show the rating of perceptions of the assurance of services provided by the banks.

Table 4. 10: Assurance Scale Item

	Mean	Std. Deviation
Making customers feel safe in transactions	4.6349	5.32574
Ability to perform the promised service dependably and accurately (credibility)	4.5000	5.57252
Staff technical knowledge to answer customer questions	4.4302	5.59735
Confidence instilled in customers by staff	4.1512	2.17211
Courtesy of staff to customers	3.9529	0.85782

The study established that the banks were excellent in making customers feel safe in transactions and ability to perform the promised service dependably and accurately (credibility) as shown by a mean score of 4.6349 and 4.5000 respectively. They also said that the banks are good in staff technical knowledge to answer customer questions, confidence instilled in customers by staff and in courtesy of staff to customers as shown by a mean score of 4.4302, 4.1512 and 3.9529 respectively.

4.4.5 Perceptions of Empathy of Services Provided

The customers were also requested to indicate their level of agreement with the statements provided that related to empathy of services provided. The study findings are presented in table 4.11.

Table 4. 11: Empathy Scale Item

	Mean	Std. Deviation
A composite of understanding and access	4.6628	5.54895
Convenience of office business hours	4.0581	0.93751
Staff understanding of customer needs	3.6824	1.04894
Individualized attention to customers by staff	3.6512	1.01480
Employees who deal with customers in a caring fashion	3.5698	1.18362
Customers' best interest at heart by staff	3.5465	1.21420

From the study findings portrayed in Table 4.5, most of the customers were in agreement that the banks were excellent in a composite of understanding and access as shown by a mean score of 4.6628. The banks were found to be good at convenience of office business hours as shown by a mean score of 4.0581, staff understanding of customer needs as shown by a mean score of 3.6824, individualized attention to customers by staff as shown by a mean score of 3.6512, employees who deal with customers in a caring fashion as shown by a mean score of 3.5698 and customers' best interest at heart by staff as shown by a mean score of 3.5465. This concur with Parasuraman et al. (2005) who observed that empathy involves treating customers as unique individuals, the caring and individualized attention provided to customers

includes approachability and ease of contact with the service provider and their efforts to understand customers' needs and listening to customers' concerns and proving them with a positive solution is how you show empathy.

4.4.6 Perceptions of the Tangible Attributes of Services Provided

The study also sought to establish the extent that the perceptions of the tangible attributes of services provided in Table 4.12

Table 4. 12: Tangibles Scale Item

	Mean	Std. Deviation
Neatness and professionalism of staff in appearance	4.3372	0.79128
Visual appeal of the office facilities	4.2558	9.71135
Appeal of serviced equipment	4.0698	0.90477
Modernity of the office equipment	3.9186	0.93576

According to the findings, majority of the customers indicated that the banks were good in neatness and professionalism of staff in appearance, visual appeal of the office facilities, appeal of serviced equipment and modernity of the office equipment as shown by a mean score of 4.3372, 4.2558, 4.0698 and 3.9186 respectively. In line with this, Akbaba (2006) observed that physical evidence (tangibles) is critical in services as it is used as a cue to provide the client with an indication of the service offered, while it also impacts on the way in which the service is positioned and differentiated.

4.5 Cost Cutting and Service Quality

In order to establish the relationship between Costs cutting and service quality in commercial banks, the study used Chi square to test the following hypotheses:

Null: Cost cutting does not affect service quality in commercial banks

Alternate: Cost cutting affects service quality in commercial banks

The null hypotheses imply that the variable- Cost cutting and service quality are independent of each other. The researcher wanted to find out whether there was any notable relationship between Cost cutting and service quality.

Table 4. 13: Chi-Square Tests

	Value	df (degree of freedom)	p-Value
Chi-square	74.857	4	0.0213

The calculated Pearson Chi-Square value is 74.857. The associated P-Value (Asymptotic significance) is 0.0213. This value is less than 0.05 (5% level of significance) indicating that there is evidence against the null hypotheses and therefore we reject it. A conclusion can be drawn from the study that ‘Cost cutting affects service quality in commercial banks’. This is in line with Choi and Mattila (2008) who indicated that if the company management focus only on costs, costs tends to go up and quality declines over time. If you focus chiefly on quality, costs tend to go down and quality rises. So, the short term implication of deep cost cutting is unavoidably a drop in quality in the service level.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objective of the study.

5.2 Summary of Findings

This study revealed that the banks adopt more of the longer-term strategic cost initiatives. On laying off staff/ retirement/termination planning, the study established that banks have implemented termination planning to reduce training costs, laying off direct labour to reduce trade union and group costs and laying off staff to reduce direct labour cost to a great extent.

The study found that that employee pay reduction practices implemented in the banks operations to cut cost to a great extent include freeze or reduction in planned pay rise, pursuing employee benefits and allowances cost reduction and pension cost-alignment initiative.

On the extent that the banks have implemented shrinking of product portfolio into its operations to cut cost, the study deduced that process automation, rolling out new and cheaper services and reviewing plan options/developing contingency plans were implemented to a great extent.

It was clear that the banks outsourced cleaning and sanitary services and security services to a very great extent while mail delivery services, utilizing a supply chain

partner reduces the amount of staff resources needed and organization's transportation costs were outsourced to a great extent.

On flexible work option to ease costs, the study established that the banks implemented job sharing and flextime to a great extent while part-time employment, lactation breaks for nursing mothers, temporary employment and changing hours of service and compressed work weeks were adopted to a moderate extent.

The study deduced that office restructuring/ over-hauling the internal structure of a company and reduction of bureaucracy and the number of corporate layers were implemented to a great extent

It was clear that the strategies that ensure that the employee buy into the cost cutting initiatives taken by the bank to a great extent include careful and frequent two-way communication, making employees understand how and why decisions are being made, making employees feel heard and detailed process- and meeting-planning.

The study deduced that the banks are good in performing services right the first time, maintaining error free records, ability to perform the promised service accurately and dependably, providing services at the promised time and dependability in handling customer's problems.

It was also clear that the banks are good in understand exactly what each customer needs, readiness of staff to respond to customers requests, informing client when services will be performed, prompt service to customers, willingness by staff to help customers and communicating regularly with the customer.

On the perceptions of the assurance of services provided by the banks, the study found that the banks were excellent in making customers feel safe in transactions and ability to perform the promised service dependably and accurately (credibility) while they were good in staff technical knowledge to answer customer questions, confidence instilled in customers by staff and courtesy of staff to customers.

The study established that the banks were excellent in a composite of understanding and access. The banks were found to be good at convenience of office business hours, staff understanding of customer needs, individualized attention to customers by staff, employees who deal with customers in a caring fashion and customers' best interest at heart by staff. The study further deduced that the banks were good in neatness and professionalism of staff in appearance, visual appeal of the office facilities, appeal of serviced equipment and modernity of the office equipment.

5.3 Conclusions

Commercial banks are customer centric organizations that believe in nurturing relationships with customers and with partners that better help them serve the customers, directly or indirectly and will no doubt require to focus on what customers want to achieve their long term vision of being among the industry leaders. Poor service is predictable and therefore preventable through close coordination and collaboration between departments/sectors in a company using a holistic and integrated approach that ensures customer expectations are met. From the findings, the study concludes that the banks adopt more of the longer-term strategic cost initiatives such as laying off staff, retirement, termination planning, pay reduction practices, shrinking of product portfolio, outsourcing of cleaning and sanitary services and security services, flexible work option and office restructuring.

The study also concludes that the strategies that ensure that the employee buy into the cost cutting initiatives taken by the bank to a great extent include careful and frequent two-way communication, making employees understand how and why decisions are being made, making employees feel heard.

The study finally concludes that the cost cutting practices affect various facets of service quality such as reliability, responsiveness, assurance, empathy and tangible attributes of services provided.

5.4 Recommendations

From the study findings and conclusions, the study recommends that to ensure service quality provision is at exceptional levels even with various cost cutting practices, it is essential to have written policies and staff training on both procedural and personal aspects of service delivery.

The management should also establish policies such as part-time employment, lactation breaks for nursing mothers, temporary employment, changing hours of service and compressed work weeks using other companies such as those in the telecommunication industry that have low effect on the service quality.

The study also recommends that in order to minimize negative behaviour and increase quality in the event of cost cutting, the bank management should adopt contingency contracting, exercise dormant lines of credit, not offering lower prices to clients that aren't price sensitive, the banks should keep close track of their competitor's costs to ensure that they don't get left behind and lose valuable assignments from overbidding, or income from underbidding.

The study further recommends that the banks should put more effort in ensuring that they are dependable in handling customer's problems and providing services at the promised time. The banks should also do a quality control to ensure that confidence is instilled in customers and train staff with technical knowledge to answer customer questions.

5.5 Limitations of the Study

A limitation for the purpose of this research was regarded as a factor that was present and contributed to the researcher getting either inadequate information or responses or if otherwise the response given would have been totally different from what the researcher expected.

The main limitations of this study were;

Some respondents refused to fill in the questionnaires. This reduced the probability of reaching a more conclusive study. Fear and victimization by respondents is also likely to limit the study some employees may be unwilling to divulge information for fear of victimization by their superiors and slow pace of respondents also limited the study. Further, most of the respondents were busy throughout and had to continuously be reminded and even persuaded to provide the required information. However, conclusions were made with this response rate.

The small size of the sample could have limited confidence in the results and this might limit generalizations to other situations.

Time- Due to official duties time was a major concern. Finally, Illiteracy level of customers interviewed also affected the study given the fact that not all customers are able to read and respond to the questions they are asked.

5.6 Suggestions for Further Research

The study recommends that further study should be done on evaluation of the effect of cost cutting practices in on customer perceptions of service quality in other industries such as the telecommunication, insurance and even the public sector. The study also recommends that a study should be conducted on the effect of service quality assurance on the performance of commercial banks. The study further recommends that a study should be conducted on system procedures simplification and computer-based technology improvement on performance. Further studies should be conducted on the effect of tangibility of services provided by the banks on their performance.

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APPENDICES

Appendix I: Introduction Letter

RE: REQUEST FOR DATA COLLECTION

I am master of business administration student at the Nairobi University and in my final year of study.

As part of the requirement for the award of the degree of Master of Business Administration for graduation, I'm undertaking a research on COST CUTTING PRACTICES AND SERVICE QUALITY AMONG COMMERCIAL BANKS IN KENYA.

In this regard, I'm kindly requesting for your support in terms of time, and by responding to the attached questionnaire. Your accuracy and candid response will be critical in ensuring objective research.

It will not be necessary to write your name on this questionnaire and for your comfort, all information received will be treated in strict confidence.

Thank you for your valuable time on this.

Yours faithfully

Patrick Masyuki Kilonzo

Appendix II: Questionnaire for bank Managers

SECTION A: DEMOGRAPHIC DATA/PERSONAL CHARACTERISTICS

1) Gender Male [] Female []

2) Your age bracket (Tick whichever appropriate)

Under 25 [] 26 – 35 []

36 – 45 [] 46 – 55 []

56 and Above []

3) What is your education level? (Tick as applicable)

Primary [] Secondary []

Diploma/certificate [] Bachelors’ degree []

Others-specify.....

4) Years of service/working period in the bank (Tick as applicable)

Less than 1 year [] 10-20 years []

1-10 years [] 20-30 years []

Over 30 years []

SECTION B: COST CUTTING PRACTICES

5) Does the bank adopt more of the short-term tactical cost decreases or the longer-term strategic cost initiatives?

Short-term strategies []

Long-term strategies []

6) To what extent has your bank implemented the following cost cutting practices into its operations? Use a scale of 1-5 where 1= very great extent and 5 = not at all.

Laying off Staff/ Retirement/Termination Planning	1	2	3	4	5
Laying off staff to reduce direct labour cost					
Laying off direct labour to reduce trade union and group costs					
Termination planning to reduce training costs					

7) To what extent has your bank implemented the following employee pay reduction practices into its operations to cut cost? Use a scale of 1-5 where 1= very great extent and 5 = not at all.

Reducing Employee Pay	1	2	3	4	5
Salary reduction initiatives					
Freeze or reduction in planned pay rise					
Pursuing employee benefits and allowances cost reduction					
Pension cost-alignment initiative					
Switching to a less expensive employee health insurance program					

8) To what extent has your bank implemented the following practices shrinking of product portfolio into its operations to cut cost? Use a scale of 1-5 where 1= very great extent and 5 = not at all.

Shrinking Of Product Portfolio	1	2	3	4	5
Rolling out new and cheaper services					

Reducing the product portfolio					
Process automation					
Reviewing plan options/developing contingency plans					

9) To what extent has your bank implemented the following practices relating to outsourcing into its operations to cut down on cost? Use a scale of 1-5 where 1= very great extent and 5 = not at all

Outsourcing of Secondary Activities	1	2	3	4	5
Out sourced Security services					
Outsourced Cleaning and sanitary Services					
Out sourced Mail delivery services					
Organization's transportation costs					
Utilizing a supply chain partner reduces the amount of staff resources needed					

10) To what extent has your bank implemented the following flexible work option practices into its operations to cut down on cost? Use a scale of 1-5 where 1= very great extent and 5 = not at all.

Flexible Work Option to Ease Costs	1	2	3	4	5
Changing hours of service					
Part-time employment					
Temporary employment					
Job sharing					

Flextime					
Telecommuting/ home based work					
Compressed work weeks					
Lactation breaks for nursing mothers					

11) To what extent has your bank implemented the following practices into its operations to cut down on cost? Use a scale of 1-5 where 1= very great extent and 5 = not at all.

Downsizing to a Smaller Office	1	2	3	4	5
Office Restructuring/ over -hauling the internal structure of a company					
Renegotiating a lease for smaller rental payments					
Discontinue the office cleaning service and do it yourself					
Reduction of bureaucracy and the number of corporate layers					
Acquiring or merging with related companies					

12) To what extent do the following strategies ensure that the employee buy into the cost cutting initiatives taken by the bank? Use a scale of 1 to 5 where 1 is 'Not at all' and 5 is 'Very great extent'.

	1	2	3	4	5
Careful and frequent two-way communication					
Detailed process- and meeting-planning					
Making employees feel heard					
Making employees understand how and why decisions are being made					
Making employees believe they are respected					

13) What should the bank management do to minimize negative behaviour and increase quality in the event of cost cutting?

.....

.....

.....

.....

Appendix III: Questionnaire for the Bank Customers

SECTION A

1) Gender Male [] Female []

2) Your age bracket (Tick whichever appropriate)

Under 25 [] 26 – 35 []

36 – 45 [] 46 – 55 []

56 and Above []

3) What is your education level? (Tick as applicable)

Primary [] Secondary []

Diploma/certificate [] Bachelors' degree []

Others-specify.....

4) Do you frequently interact with the bank with regard to service provision? Please circle where appropriate. Yes [] No []

5) How long has you been dealing with the bank?

SECTION B

DIRECTIONS: For each of the following statements, please indicate the extent to which you believe the bank had the characteristic described by the statement.

6) Do this by selecting one of the five numbers next to each statement. If you rate the description by the statement as excellent, circle number 5. If you rate the description by the statement as, circle number 1. Otherwise, circle one of the numbers in between which represents your feelings.

ITEM	Very Poor	Poor	Fair	Good	Excellent
PART 1: RELIABILITY					
Ability to provide services as promised	1	2	3	4	5
Dependability in handling customer's problems	1	2	3	4	5
Performing services right the first time	1	2	3	4	5
Providing services at the promised time	1	2	3	4	5
Maintaining error free records	1	2	3	4	5
Ability to perform the promised service accurately and dependably	1	2	3	4	5
PART 2: RESPONSIVENESS					
Informs client when services will be performed	1	2	3	4	5
Prompt service to customers	1	2	3	4	5
Willingness by staff to help customers	1	2	3	4	5
Readiness of staff to respond to customers requests	1	2	3	4	5
Understand exactly what each customer needs	1	2	3	4	5
Communicating regularly with the customer	1	2	3	4	5
PART 3: ASSURANCE					
Confidence instilled in customers by staff	1	2	3	4	5
Making customers feel safe in transactions	1	2	3	4	5

Courtesy of staff to customers	1	2	3	4	5
Staff technical knowledge to answer customer questions	1	2	3	4	5
Ability to perform the promised service dependably and accurately (credibility)	1	2	3	4	5
Ability to perform the promised service dependably and accurately (credibility)	1	2	3	4	5
PART 4: EMPATHY					
Individualized attention to customers by staff	1	2	3	4	5
Employees who deal with customers in a caring fashion	1	2	3	4	5
Customers' best interest at heart by staff	1	2	3	4	5
Staff understanding of customer needs	1	2	3	4	5
Convenience of office business hours	1	2	3	4	5
A composite of understanding and access	1	2	3	4	5
PART 5: TANGIBLES					
Modernity of the office equipment	1	2	3	4	5
Visual appeal of the office facilities	1	2	3	4	5
Neatness and professionalism of staff in appearance	1	2	3	4	5
Appeal of serviced equipment Appearance of physical facilities, equipment, personnel, and communication material, location, access. appearance of equipment, physical facilities, and personnel	1	2	3	4	5

THANK YOU

Appendix IV: List of licensed commercial banks in Kenya.

1. ABC Bank (Kenya)
2. African Development Bank
3. Bank of Africa
4. Bank of Baroda
5. Bank of India
6. Barclays Bank
7. CFC Stanbic Bank
8. Chase Bank (Kenya)
9. Citibank
10. Commercial Bank of Africa
11. Consolidated Bank of Kenya
12. Cooperative Bank of Kenya
13. Credit Bank
14. Development Bank of Kenya
15. Diamond Trust Bank
16. Dubai Bank Kenya
17. Ecobank
18. Equatorial Commercial Bank
19. Equity Bank
20. Family Bank
21. Fidelity Commercial Bank Limited
22. Fina Bank
23. First Community Bank
24. Giro Commercial Bank
25. Guardian Bank
26. Gulf African Bank
27. Habib Bank
28. Habib Bank AG Zurich
29. Housing Finance
30. I&M Bank
31. Imperial Bank Kenya

32. Jamii Bora Bank
33. Kenya Commercial Bank
34. K-Rep Bank
35. Middle East Bank Kenya
36. National Bank of Kenya
37. NIC Bank
38. Oriental Commercial Bank
39. Paramount Universal Bank
40. Prime Bank (Kenya)
41. Standard Chartered Kenya
42. Trans National Bank Kenya
43. United Bank for Africa
44. Victoria Commercial Bank

Source: Central Bank of Kenya (CBK).