THE INFLUENCE OF SERVICE INNOVATION PRACTICES ON CUSTOMER SATISFACTION IN THE COMMERCIAL BANKING SECTOR IN KENYA

MARTHA KIARIE

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2012
DECLARATION

This research project is my original work and has not been presented for a degree in this or any other university

Signature: __________________________ Date

Martha Kiarie
D61/62821/2010

This project has been submitted to the University for Examination with my approval as the University Supervisor

Signature: __________________________ Date

Mary Kinoti-Lecturer
Department of Business Administration
School of Business
University of Nairobi
DEDICATION

To my parents and siblings
ACKNOWLEDGEMENTS

I would like to acknowledge the Almighty for the gift of life and the intellectual ability to carry out this research. I also acknowledge my parents for their love and support. To my brother and sister for the constant encouragement and support. To all my friends and colleagues at work and at the university.

To my supervisor Mrs Mary Kinoti, who reviewed, critiqued and commented on the report and progress. Without your consideration, input and encouragement, this study would not have been completed.

Thank you.
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ABSTRACT

Commercial Banks in Kenya have continuously invested in service innovation practices to be able to satisfy their customers. The level of innovation varies from Bank to Bank and service to service. Service innovation has been explained under three outlooks including innovation in services as new or improved service products, innovation in service processes as new or improved ways in designing and producing services and finally innovation in service firms, organization and industries. Customer satisfaction is used as a measure of how products and services supplied by a company meet or surpass customer expectation and it is seen as a key performance indicator within businesses.

This paper sought to determine service innovative practices in the Commercial Banking Sector and to establish the relationship that exists between service innovative practices and customer satisfaction in the commercial banking sector. Primary data was collected using a semi structured questionnaire, designed to be completed by respondents who are customers of the various commercial banks in Kenya. The data was then checked for completeness and analyzed using descriptive statistics.

The study reveals that indeed commercial banks in Kenya engage in service innovation practices. Respondents of the study were able to outline the service innovations available in their banks and the level of engagements their banks undertake to be involved in service innovation practices. Secondly the study revealed that there is a correlation between service innovation practices and customer satisfaction. The more the banks undertook service innovations, the higher the level of customer satisfaction.

The paper concludes by a confirmation that service innovation practices have an influence on the levels of customer satisfaction.
CHAPTER ONE: INTRODUCTION

1.1 Background of the study-

Service innovation has been described as something which is carried into practice. These innovations usually have an impact of the customers perception of the organization and the service based on the satisfaction they derive from it (Schumpeter, 1947). There have been considerable changes in banking in recent years so as to become competitive. The development of information technology and the use of the computer have changed the nature of clerical operations. The posting of ledger accounts and customers statements by hand are now almost forgotten tasks. The pace of change is likely to continue (Patel, 1995; Shoemaker, 1995; Perez et.al, 1988; Lall, 2001; Nelson; 1993). Loyal customers are valuable to a businesses (Kaganzi, 2003; Agwu et.al, 2008; Hall, 2005; Lundvall, 1992). Therefore creating and maintaining loyalty should be a major goal for businesses. Banks should continuously engage in creating products and services that meet the requirements of their clients to ensure retention of their customers.

Satisfying the ever changing customer needs has become a major concern for most organizations due to the liberalization of the market. Organizations therefore are looking for innovative ways to satisfy customer needs in order to retain them and to maintain competitive advantage. The business environment in which Kenyan firms operate became turbulent in the 1900s due to unfamiliar changes that exerted heavy pressure on the organization (Mulaa, 2004). Some of the changes include the accelerated implementation of economic reforms, the liberalization of the economy, discontinuation of price controls, privatization and commercialization of public sector and increased competition. In this changing environment, organizations have constantly adapted their activities and internal configuration to reflect the new external realities. Failure to do this may put the future success of the organization in jeopardy (Murage, 2001). Through this scenario, one can assert that external conditions have drastically changed in Kenya, hence continuously exerting new challenges on the organizations. This in turn creates pressure for organizations to respond to the new environmental reality. Kenyan Commercial Banks need to have strategies in place to cope with the changes in the environment.
1.1.1 Service Innovation

A service is a product of essentially intangible benefit, either in its own right or as a significant element of a tangible product which through some form of exchange satisfies an identified need and cannot be stored. Very few services face constant pattern of demand throughout time. Many show variation which could be daily, weekly, seasonal or cyclical. All of which display unpredictable patterns of demand (Agwu et. al, 2008).

A service cannot be seen, touched, tested or smelled, nor can it be possessed. The intangible process characteristics that define services such as reliability, personal care, attentiveness of staff and their friendliness can only be verified once a service has been bought and consumed. People do not always perform consistently and thus variations from one service to another within the same organization (Dattakumar et. al, 2003). Organizations can attempt to reduce their inconsistencies through standardization and training, (Kemmis et.al, 1988).

Schumpeter (2002) describes service innovation as a service product or service process that is based on some technology or systematic method that is carried into practice to provide benefit to its developer. Service innovations can for instance be new solutions in the customer interface, new distribution methods, application of technology in the service process, new forms of operation with the supply chain or new ways to organize and manage services.

The first service innovation theories named "the reverse innovation cycle" describes the service innovation sequence as having a reverse form in comparison with traditional industrial cycles as process innovation comes before product innovation. So service companies implement new technologies with the intention of enhancing the efficiency of their processes and then the quality of service. Finally, they develop new service products (Tassey, 1997).

Service innovation has also been described through the "reverse product cycle" theory which describes service as a combination of three kinds of characteristics: final characteristics which represent the benefits for the customer, technical characteristics
which correspond to the firm's tangible and intangible systems used in the production of the service and competence characteristics which are the individual skills of the service provider and the customer. In this theory, the customer's expectations are the guiding factor to developing the correct competences in the organization (Tassey, 1997).

1.1.2 Concept of Customer Satisfaction

Customer satisfaction is used as a measure of how products and services supplied by a company meet or surpass customer expectation and it is seen as a key performance indicator within businesses. In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy. Organizations need to retain existing customers while targeting non-customers. Measuring customer satisfaction provides an indication of how successful the organization is at providing products and/or services to the marketplace (Spielman et al, 2008).

Customer satisfaction is an abstract concept and the actual manifestation of the state of satisfaction will vary from person to person and product/service to product/service. The state of satisfaction depends on a number of both psychological and physical variables which correlate with satisfaction behaviors (Edquist, 1997). The usual measure of customer satisfaction involves a survey with a set of statements using a Likert Technique or scale. The customer evaluates statements in terms of their perception and expectation of performance of the service being measured. A business can measure its customer satisfaction index by relating the aggregates of satisfied customers versus dissatisfied customers (Eriksson et al, 2008).

Customer satisfaction is influenced by a variety of factors, including resource constraints, management perceptions of consumer expectations and the firm's service quality specifications. Customer satisfaction is affected by the customer's perception of service quality which depends on the size and direction of the gap between the service the customer expects to receive and what he or she perceives to have been received (Papaioannou et al, 2006).
Customer satisfaction is beneficial to a company as it creates a strong incentive and customers are unlikely to switch supplier. Satisfied customers want the company to survive any crisis it experiences and they try to assist the company to ensure its survival. Customer satisfaction is among the best source of insulation against corporate crises (Furman et al, 2002). Companies can also achieve competitive advantage through customer satisfaction. In most mature markets, one of the best competitive advantages companies can maintain is through retaining their customers. Competitive strategies for retaining existing customers' are less costly than those for gaining new customers (Papaioannou et.al, 2006).

1.1.3 The Commercial Banking Industry in Kenya
During the last 20 years there have been major changes in the commercial banking sector globally. The globalization of financial markets has led to stiffer competition of the local banks for market share, from foreign owned banks. Competition squeezed profits while the interest rate volatility has led to an unstable investment environment, which has resulted in irregular returns and consequently higher risk. The recent decline in Treasury bill rates has meant that banks have again had to start learning how to lend to customers rather than the Government (Mulaa, 2004).

There are 43 commercial banks with a total asset of Kshs. 510.6 billion, (Central Bank of Kenya, 2011). Most of the banks are small to medium sized and 35 are locally around. A few large banks are foreign owned though some are partially locally owned. Eight of the major banks are listed in the Nairobi Stock Exchange (NSE). The banking sector is poised for significant new product and market development that should result in further consolidation of the banking sector as market forces and competition takes root.

The past decade has seen banks go through major changes in the face of liberalization, globalization, information technology, the emergence of micro-finance institutions and demanding customers. According to Central Bank of Kenya, (2011) the existing large banks have responded to the changing macro environment by aggressively marketing through heavy increased share of voice through heavy above the line advertising.
Through product service innovation, banks are attempting to achieve a finer degree of control over financial risks. Through adoption of new technology like Electronic Funds Transfer (EFT) and Real Time Gross Settlement System (RTGS), Banks have radically altered the face of the banking environment. New IT products have changed the way banks do business by reducing the banking processes and increasing transparency, on the contrary new technology have weakened the traditional relationship between clients and their banks. This is because the branch network system ensures that one is not restricted to transacting at the branch where the customer opened an account.

The above changes have contributed immensely to the increasing competition in banking industry especially with regard to the number of financial products available in the market that is comprised of an increasingly more sophisticated clientele. Kenyan Banks are therefore expected to develop strategic responses to address the changing competitive environment in which they operate.

1.2 Problem Statement

All the banks in Kenya have realized that their market environment is rapidly changing and so are the customer needs, tastes and preferences. The quality of the service the banks render is one of the few variables that distinguish them from the competition (Gavigan et. al, 2001). If the customers do not derive maximum utility from the service rendered they will not be satisfied. The customer is regarded as the most important factor in the banking industry and other industries in the economy. Lall, (2001), report that successful organizations are obsessed by service quality. This has become a critically important factor in the buying decision of the customer. An organizations strategy can be described as its overall plan or policy to achieve its goals, amongst them being to satisfy customers, (Georgantzas et. al, 1995).

Service innovation is among the many strategies organizations use to achieve customer satisfaction, retention and increased sales. Innovation has been attributed to the dynamic changes in customer needs and has been attributed as one of the key factors in the success of companies as it involves conversion of an idea into a product or a service (Georgehiou et. al, 2006).
These changes are also being faced by Kenyan commercial banks and service innovation is being used as a strategy to satisfying the customers ever changing needs. Through service innovation practices, Kenyan commercial Banks have introduced and expanded the use of technological interfaces such as automated teller machines (ATMs), electronic banking and mobile banking. These innovations have however affected relationships with clients some customers still seek staff contact or personalized banking (Grupp & Mogee, 2004).

It is possible to keep clients happy and run a successful business based on high client retention through continual client satisfaction (Hall, 2005). Customer satisfaction is a customer's response, or a judgment, to a product or service in terms of the extent to which consumption meets expectations (Kaganzi, 2003). High customer expectations and intensifying fierce competition are macro environment demands surrounding the financial service industry. These demands emphasize the need for high quality performance and service excellence in all aspects of the banking industry. Kremer & Wamae (2010) found that in an optimal bank/firm relationship, both the bank and the firm receive large economic benefits.

Several researches have been done in the area of service innovation both internationally and locally, (Schumpeter, 2002; Edquist, 1997; Dattakumar & Jagadeesh, 2003; hall, 2005; Kaganzi, 2003; Murage,2001 and Mulaa,2004 ). However, no similar study has been done in the field of service innovation practices in relation to customer satisfaction in the Kenyan commercial Banking sector. Therefore this study was aimed to fill this gap by answering the question, what is the influence of service innovation practices on customer satisfaction in the commercial banking sector in Kenya.

1.3 Research Objectives

(i) To determine service innovative practices in the Commercial Banking Sector
(ii) To establish the relationship that exists between service innovative practices and customer satisfaction in the commercial banking sector
1.4 Value of the Study

The study was aimed to offer a basis for other academic investigations by future academicians and researchers into the area of customer service and evaluation of customer satisfaction in financial institutions and other corporations. Academicians will benefit from the information of the study as it will contribute to the existing body of knowledge. This study will also open more areas, of future studies in the banking sector for scholars. The study will also provide further background information to research organizations and scholars who will want to carry out further research in this area.

To the banking industry, the study will benefit the top management who will use it to make informed decisions on issues of strategic innovative and quality of services delivered.

This study will also form as a baseline study, which can be used to measure progress in the commercial banking industry in future. The study will also provide information and methodologies to the government which can be replicated in designing innovative services in other organizations.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This Chapter focuses on the review of literature related to this study. The literature gathered focuses on the concept of service, service quality, innovation, innovation in services, service innovation practices in the commercial banking industry, customer satisfaction, service innovation and customer satisfaction.

2.2 Concept of Service

The term service has been defined by different authors over time. Lundvall, (1992), defined a service as a product of essentially intangible benefit, either in its own right or as a significant element of a tangible product which through some form of exchange satisfies an identified need. Metcalfe, (1995) on the other hand defined a service is a performance, which cannot be seen, touched, tested or smelled, nor can it be possessed. People do not always perform consistently and thus variations from one service to another within the same organization. Organizations therefore attempt to reduce their inconsistencies through standardization and training. Nelson, (1993) also described services in taxonomy of 3 groups: supplier-dominated services, production-intensive services and science-based services. Supplier dominated services are those that are provided by the public services e.g. education and health care and some distributive services e.g. retail trade. Supplier dominated services concern the services dependent on physical networks or dependant on information networks e.g. banks and insurances. Finally science-based services are those which have innovation directly related to progresses in applied sciences e.g. electronics and bioengineering.

Services have very unique characteristics that are distinctive in comparison to products. Services cannot be stored and very few services face constant pattern of demand throughout time. Many show variation which could be on daily, weekly, seasonal or cyclical. All of which display unpredictable patterns of demand. The intangible characteristics that define services such as reliability, personal care, attentiveness of staff and their friendliness can only be verified once a service has been bought and consumed.
Analysis of the various definitions of indicates that most authors agree that a service is a type of economic activity that is intangible, is not stored, does not result in ownership and is consumed at the point of sale.

2.3 Service Quality

Service quality describes a customer's expectations. A business with high service quality will meet customer needs whilst remaining economically competitive (Lundvall, 2007). Customers' perception of service quality and their satisfaction are profoundly influenced by their service encounters, (Metcalfe, 2006). A service encounter can be defined as the period of time during which a customer directly interacts with a service (Shoemaker, 1995). This includes all features of service with which a consumer may have any kind of interaction, going from personal to physical facilitations, or even non-human interactions (Ogden & Wilson, 2000).

Customer's perception of service quality depends upon the size and direction of the gap between the service the customer expects to receive and what he or she perceives to have been received. The magnitude of this gap (which can either be positive or negative) is determined by four interrelated variables: (1) the difference between actual consumer expectations and management perceptions of those expectations; (2) between management perception of expectations and the translation of those perceptions into service quality specifications; (3) between service quality specifications and service delivery; and (4) between both service quality specifications and service delivery, and external communications to customers. These gaps can be a major hurdle in attempting to deliver a service which consumers would perceive as being of high quality (Papaioannou, et. al, 2006).

The commercial banking industry is dominated by look-alike products at similar prices, superior customer service may be the only available route to competitive advantage. Customer service is no longer a matter of choice as the future of any organization depends on it, (Patel, 1995). Quality customer service delivery begins with establishing clear, concise, observable and realistic service standards that are precise in meaning.
short and to the point which can be seen or measured, practical and attainable (Perez & Soete, 1988).

When customers assess the quality of a service provided in a branch, they use different criteria that are called attributes. Many of which are interesting but only a few are the most important, (Hall et al, 2006). Those determinant attributes are the ones that will define service quality from the consumer's perspective. A variety of factors, including resource constraints, management perceptions of consumer expectations and the firm's service quality specifications affect service quality from the consumer's viewpoint.

2.4 Concept of Innovation
Schumpeter, (1947) described innovation as something which is carried into practice: an idea without a practical use is not yet an innovation. Hall et al, (2006) also described innovation as something which provides benefit to its developer and may also be profitable for other companies that will follow through imitation. He also describes innovation as something which is reproducible and can promote an entire economy's development.

Schumpeter (1947) identified several forms of innovation including, the introduction of a new good or a new quality of a good, the introduction of a new method of production, the opening of a new market, the conquest of a new source of supply of raw material or intermediate input and the establishment of a new organization. These different forms show that innovation comes out of new combinations of existing things.

Innovation has also been described as either "incremental innovation", ideas that are completely new for a company, or "radical innovation", ideas that concern a world novelty (Hall et al, 2006). According to Perez & Soete, (1988) innovation may be combined to learning. In fact, learning and innovation are both positive factors of evolution for a company. They both help companies increase financial results or number of employees, and also especially the likelihood to meet new market opportunities.
2.5 Innovation in services

According to the different characteristics of innovation described in the previous section, a service innovation is "a new service or such a renewal of an existing service which is put into practice and which provides benefit to the organization that has developed it: the benefit usually derives from the added value that the renewal provides the customers. In addition, to be an innovation the renewal must be new not only to its developer, but in a broader context and it must involve some element that can be repeated in new situation, (Van der Heijden, 1996).

One of the first models concerning exclusively service innovation was the model of the "reverse innovation cycle" of Schumpeter (1947) mentioned in Toivonen et al (2007). In this model, the service innovation cycle has a reverse form in comparison with traditional industrial cycles. In fact, in service innovation cycle process innovation comes before product innovation. So service companies implement new technologies with the intention of enhancing the efficiency of their processes and then the quality of service. Finally, they develop new service products, (Hall et al, 2006).

Gavigan et al(2001) describe service innovation using the "reverse product cycle" which describes service as a combination of three kinds of characteristics: final characteristics, technical characteristics and competence characteristics. The final characteristics represent the benefits for the customer while the technical characteristics correspond to the firm's tangible and intangible systems used in the production of the service. Finally, competence characteristics are the individual skills of the service provider and the customer.

2.6 Service Innovation Practices

Service innovation is a new or significantly improved service concept that is taken into practice. It has been described as for example new customer interactions channel, a distribution system or a technological concept or a combination of them. A service innovation always includes replicable elements that can be identified and systematically
reproduced in other cases or environments. The replicable element can be the service outcome or the service process as such or a part of them, (Toivonen et al, 2007).

According to Hall et al, (2006) service innovation benefits both the service producer and customers and it improves its developer's competitive edge. Service innovation is a service product or service process that is based on some technology or systematic method. In services however, the innovation does not necessarily relate to the novelty of the technology itself but the innovation often lies in the non-technological areas. Service innovations can for instance be new solutions in the customer interface, new distribution methods, novel application of technology in the service process, new forms of operation with the supply chain or new ways to organize and manage services.

Hall et.al (2006) described service innovation practices under three outlooks including innovation in services as new or improved service products, innovation in service processes as new or improved ways in designing and producing services which may include innovation in service delivery systems and finally innovation in service firms organization and industries.

2.7 Service innovations practices in the Commercial Banking Industry

Service innovations are currently a priority for managers of many commercial banking organizations and it is a driver of performance and a key of growth as organizations in this industry operate in an extremely competitive and dynamic environment. There are many forms of banking innovations in the banking sector which include relationship banking, automated teller machines, telephone banking, internet banking, branch networking, electronic funds transfer, real time gross settlement system.

Relationship Banking has been developed and embraced by commercial banks as the relationship between the clients and banks is largely a contractual one. When completing a form to open an account, the client is offering his money to the bank, while the bank is at liberty to accept or reject the offer as it sees fit. Once both parties accept the terms as discussed, a relationship is formed between the parties (Georghiou et.al, 2006, Georgantzis et.al, 1995). Relationship banking involves banks investing in building
relationships with borrowers (Auluck, 2002). Auluck, (2002) defines relationship banking as the provision of financial services by a financial intermediary that invests in obtaining customer-specific information, often proprietary in nature; and evaluates the profitability of these investments through multiple interactions with the same customer over time and/or across products. Auluck, (2002) states that three conditions are met when relationship banking is present which are: The intermediary gathers information beyond readily available public information; Information gathering takes place over time through multiple interactions with the borrower, often through the provision of multiple financial services; and the information remains confidential (proprietary).

Relationship banking can increase the banks earnings by maximizing the profitability of the total customer relationship over time, rather than by seeking to extract the most profit from any individual product or transaction (Dattakumar et.al, 2003). Auluck, (2002) states that relationship banking can facilitate a Pareto-improving exchange of information between the bank and the borrower. With relationship banking, a borrower might be inclined to reveal more information than in a transaction-oriented interaction and the lender might have stronger incentives to invest in producing information.

The automated teller machine was described by Auluck, (2002) as a device that combines a computer terminal, record-keeping system and cash vault in one unit, permitting customers to enter the bank's book keeping system with a plastic card containing a Personal Identification Number (PIN). Once access is gained, it offers several retail banking services to customers. ATMs are mostly located outside of banks, and are also found at airports, malls, and places far away from the home bank of customers. They were introduced first to function as cash dispensing machines. However, due to advancements in technological innovations, ATMs are able to provide a wide range of services, such as making deposits, funds transfer between two or accounts and bill payments. Banks tend to utilize this electronic banking device, as all others for competitive advantage.
The combined services of both the Automated and human tellers imply more productivity for the bank during banking hours. ATMs also enhance customer satisfaction as they save customers time in service delivery as alternative to queuing in bank halls, enabling them to invest such time saved into other productive activities. ATMs are also a cost-efficient way of yielding higher productivity as they achieve higher productivity per period of time than human tellers (Auluck, 2002). Furthermore, as the ATMs continue when human tellers stop, there is continual productivity for the banks even after banking hours.

Telephone Banking is a service innovation that is considered as a form of remote or virtual banking. This is essentially the delivery of branch financial services via telecommunication devices where the bank customers can perform retail banking transactions by dialing a touch-tone telephone or mobile communication unit, which is connected to an automated system of the bank by utilizing Automated Voice Response (AVR) technology" (Byerlee et al, 2002). According to Lall (2001), telebanking has numerous benefits for both customers and banks. As far as the customers are concerned, it provides increased convenience, expanded access and significant time saving. On the other hand, from the banks' perspective, the costs of delivering telephone-based services are substantially lower than those of branch based services. It has almost all the impact on productivity of ATMs, except that it lacks the productivity generated from cash dispensing by the ATMs. This service innovation has enhanced customer satisfaction as it offers retail banking services to customers at their offices/homes as an alternative to going to the bank branch/ATM. This saves customers time, and gives more convenience for higher productivity.

The idea of Internet banking is to give customers access to their bank accounts via a web site and to enable them to enact certain transactions on their account, given compliance with stringent security checks, (Lall, 2001). Internet Banking has also been described as the provision of traditional banking services over the internet. Internet banking by its nature offers more convenience and flexibility to customers coupled with a virtually absolute control over their banking, (Mulaa, 2004). Internet banking has in time proven to be the one of the most cost efficient technological means of yielding higher productivity.
Furthermore, it eliminates the barriers of distance/time and provides continual productivity for the bank to unimaginable distant customers, (Mulaa, 2004).

Branch Networking is the computerization and inter-connecting of geographically scattered stand-alone bank branches, into one unified system in the form of a Wide Area Network (WAN) or Enterprise Network (EN) for the creation and sharing of consolidated customer information/records (Agwu et.al, 2008). It offers quicker rate of inter-branch transactions as the consequence of distance and time are eliminated. Branch networking as a service innovation enhances more productivity per time period. With the several networked branches serving the customer populace as one system, there is simulated division of labour among bank branches with its associated positive impact on productivity among the branches. Furthermore, branch networking enhances customer satisfaction as it curtails customer travel distance to bank branches thmers more time to engage in other productive activities.

The Electronic Funds Transfer at the Point of Sale is an additional service innovation that is widely used by commercial banks. It is an on-line system that allows customers to transfer funds instantaneously from their bank accounts to merchant accounts when making purchases (at purchase points). A POS uses a debit card to activate an Electronic Fund Transfer Process (Byerlee et.al,2002). Increased banking productivity results from the use of EFTPoS to service customers shopping payment requirements instead of clerical duties in handling cheques and cash withdrawals for shopping. Furthermore, the system continues after banking hours, hence continual productivity for the bank even after banking hours. It also saves customers time and energy in getting to bank branches or ATMs for cash withdrawals which can be harnessed into other productive activities.

Real Time Gross Settlement (RTGS) system is one of the newest service innovations in the commercial banking industry and the fastest money transferring mechanism between the banks. In RTGS, the transactions are processed and settled in "Real time" and on "Gross" bases. Once the transaction is settled, it is irreversible. "Real time" means as and when the transaction is processed while "Gross" means the transaction is settled
individually without being clubbed with other transactions. The RTGS system has led to increased banking productivity as it has led to reduction of settlement risk due to settlement lag, reduced credit risk and speed up processes of high value payments, (Auluck, 2002).

2.8 Customer Satisfaction

Customer satisfaction has been the subject of considerable research, and has been defined and measured in many ways (Byerlee et.al, 2002). It is either that customers are satisfied with the services they receive or dissatisfied. If customers get what they want they are satisfied, if not they are dissatisfied (Edquist, 1997). Customer satisfaction is the degree of fit between customers' expectations of service quality and the service as perceived by the customer (Edquist, 1997). It is the customer's fulfillment response to a customer experience, or some part thereof (Byerlee et.al, 2002).

Customer satisfaction is a pleasant fulfillment response while dissatisfaction is an unpleasant fulfillment response. The experience or some part thereof component of the definition suggests that the satisfaction evaluation can be directed at any or all elements of the customer's experience. This can include product, service, process and any other components of the customer experience (Hall, 2005).

2.9 Service Innovation practices and Customer Satisfaction

Patel, (1995) described service innovation as something which provides benefit to its developer and may also be profitable for other companies that will follow through imitation. Tassey, (1997) indicate different kind of innovations based on their model, "Radical innovation". Through this system, organizations can achieve either re-combinative innovation or formalization innovation. Re-combinative or architectural innovation takes place when a new service is developed either by combining characteristics of two or more existing services (bundling) or by splitting up an existing service (unbundling). Formalization innovation occurs by clarifying the relationship between technical characteristics and final characteristics.
The most common way of quantifying satisfaction is to compare the customer's perception of an experience, or some part of it, with their expectations. This is known as the expectations disconfirmation model of customer satisfaction. Using this model, customer satisfaction can be categorized by the level of customer expectation (Byerlee et.al, 2002). This model suggests that if customers perceive their expectations to be met, they are satisfied. If their expectations are underperformed, this is negative disconfirmation and they will be dissatisfied.

Through service innovation, companies can create highly satisfied customers who are loyal to the organization. This is beneficial to the organization as the customers spread positive word-of-mouth, in essence, becoming a walking, talking advertisement for the firm. If there are many delighted customers spreading positive word-of-mouth communication, this then lowers the cost of promotion to attract new customers, (Byerlee et.al, 2002).

Shoemaker,(1995) also indicates that highly satisfied customers are more forgiving, therefore the firm can occasionally slip up and not and lose customers. Having highly satisfied customers then, is like having an insurance policy against something going wrong in the service encounter. Essentially, customer satisfaction can be seen as a means of achieving business goals as well as being a source of sustainable competitive advantage.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction
The objective of this chapter is to present an overview of the methodology that were used to guide the study. The chapter discusses the research design; population of the study, the sample size and sample design, the data collection methods and data analysis techniques.

3.2 Research Design
The study used descriptive survey design which according to Churchill (1991) is appropriate where the study seeks to describe the characteristics of certain groups, estimate the proportion of people who have certain characteristics and make predictions. Through descriptive survey, the researcher was able to answer questions relating to the what, why and how of the phenomenon of service innovation and is impact to customer satisfaction.

Descriptive survey research designs are used in preliminary and exploratory studies to allow researchers to gather information and summarize present and interpret data for the purpose of clarification (Ordhos, 2003). According to Mugenda and Mugenda (1999) the purpose of descriptive research is to determine and report the way things are and it helps in establishing the current status of the population under study. The design chosen for the study due to its ability to ensure maximization of reliability of data collected.

3.3 Population of Study
Target respondents for the study were the customers in the 43 commercial banks operating in Kenya. The population comprised of all customers in the commercial banking industry.

3.4 Sample Population
From the population described above, a sample of 15 commercial banks was used and in each bank a sample of 10 customers was interviewed. The total sample size comprised of 150 respondents. The sample units were selected through convenience sampling method.
3.5 **Data Collection**

The study relied on primary data collection techniques. A questionnaire was used to collect information from the selected sample units. The data collection instrument comprised of structured multiple choice questions with a few open ended questions which were used to elicit perceptions, feelings and attitudes of the respondents. Respondents were presented with descriptive statements in likert scale and required to rate scoring extend to which they perceived a particular statement described the variable.

In the design of the questionnaire, the researcher aimed to capture all aspects of the respondents. Part A of the questionnaire sort demographic information concerning the respondents as well as basic information in relation to the number of commercial banks they have accounts with. Part B of the questionnaire reviewed information in regards to the respondents knowledge of the service innovation practices on the banking industry and finally Part C reviewed the link between service innovation practices and customer satisfaction. The questionnaire was self administered through drop and pick method to reduce interviewer bias.

3.6 **Data Analysis**

The process of data analysis involved several stages. The completed questionnaires were edited for completeness and consistency, checked for errors and omissions and then coded (Mugenda & Mugenda, 1999). Frequency tables, percentages, mean, mode, median, cross tabulation and co-relation were be used to present the findings. Responses of the questionnaires were tabulated, coded and processed to analyze the data. The responses from the open-ended questions were listed to obtain proportions appropriately and the responses were reported in descriptive narrative.
CHAPTER FOUR: DATA ANALYSIS RESULTS AND DISCUSSION

4.1 Introduction
The chapter presents the findings and analysis of data collected based on the research objectives of the study. Data analyzed related to demographic information of the respondents, service innovation practices by commercial banks in Kenya and the satisfaction levels of customers. These findings are based on a response rate of 70%. Out of one hundred and fifty questionnaires that were issues a total of one hundred and five were answered and returned to the researcher. This is a good response rate as supported by Mungenda and Mugenda, (1999).

4.2 Demographic Information of Respondents
The respondents were asked to provide demographic information on the number of years they have operated a bank account, their income range, age and gender.

4.2.1 Number of Banking Years
In profiling the number of years the respondents had banked with their financial institutions, 29% of the respondents indicated that they had been banking with their financial institutions for five years. 29% of the respondents indicated that they had banked for three years with their financial institutions while 4% indicated that they had banked with their financial institutions for two years. The results are as presented in Table 4.1.

Table 4.1 Number of banking years

<table>
<thead>
<tr>
<th>Number of Banking Years</th>
<th>No</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two Year</td>
<td>4</td>
<td>4%</td>
</tr>
<tr>
<td>One Year</td>
<td>20</td>
<td>19%</td>
</tr>
<tr>
<td>Six Years</td>
<td>21</td>
<td>20%</td>
</tr>
<tr>
<td>Five years</td>
<td>30</td>
<td>29%</td>
</tr>
<tr>
<td>Three Years</td>
<td>30</td>
<td>29%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>105</td>
<td>100%</td>
</tr>
</tbody>
</table>
4.2.2 Income Range

Information provided indicated that 55% of the respondents had an income range between KES 100,000 to ICES 500,000 and 37% of the respondents had an income range less than KES 100,000. Only 8% of the respondents indicated that their income was above KES 500,000. The results are as presented in Table 4.2.

Table 4.2 Income Range of Respondents

<table>
<thead>
<tr>
<th>Income Range</th>
<th>No</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;100,000</td>
<td>39</td>
<td>37%</td>
</tr>
<tr>
<td>100,000-500,000</td>
<td>58</td>
<td>55%</td>
</tr>
<tr>
<td>&gt;500,000</td>
<td>8</td>
<td>8%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>105</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.2.3 Age

55% of respondents were aged between twenty six and thirty five years of age while 18% of the respondents were aged between thirty six and forty five years of age. Only 4% of respondents were above fifty years of age. This age distribution shows that most respondents were fairly young and middle aged. This information supports the number of years the respondents have been banking with their financial institutions. The results are as presented in Table 4.3.

Table 4.3 Age distribution of Respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>No</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-25</td>
<td>12</td>
<td>11%</td>
</tr>
<tr>
<td>26-35</td>
<td>58</td>
<td>55%</td>
</tr>
<tr>
<td>36-45</td>
<td>19</td>
<td>18%</td>
</tr>
<tr>
<td>45-50</td>
<td>12</td>
<td>11%</td>
</tr>
<tr>
<td>&gt;50</td>
<td>4</td>
<td>4%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>105</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.2.4 Gender

61% of the respondents were male while female respondents constituted of 39%. The researcher feels this mix is adequate in balancing the views from both levels. The results are as presented in Table 4.4.
Table 4.4 Gender Distribution of Respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>No</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>64</td>
<td>61%</td>
</tr>
<tr>
<td>Female</td>
<td>41</td>
<td>39%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>105</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.3 Service Innovation Practices

The respondents were asked to indicate the service innovation practices that were available in their respective banks. The results are as shown in Table 4.5.

Table 4.5: Service Innovation Practices available in your Bank

<table>
<thead>
<tr>
<th>Service Innovation Practices</th>
<th>No</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automatic teller machine (ATM)</td>
<td>25</td>
<td>24%</td>
</tr>
<tr>
<td>Internet Banking</td>
<td>18</td>
<td>17%</td>
</tr>
<tr>
<td>Electronic Funds Transfer</td>
<td>16</td>
<td>15%</td>
</tr>
<tr>
<td>Branch Networking</td>
<td>16</td>
<td>15%</td>
</tr>
<tr>
<td>Real Time Gross Settlement System (RTGS)</td>
<td>15</td>
<td>14%</td>
</tr>
<tr>
<td>Relationship banking</td>
<td>7</td>
<td>7%</td>
</tr>
<tr>
<td>Electronic Funds Transfer at the Point of Sale (EFTPoS)</td>
<td>5</td>
<td>5%</td>
</tr>
<tr>
<td>Telephone Banking</td>
<td>4</td>
<td>4%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>105</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Research data

24% of respondents identified Automatic Teller Machines (ATMs) as an available service innovation practice, 17% indicated that Internet Banking was an available service innovation while 15% of respondents indicated that Electronic Funds Transfer and Branch Networking were available service innovation practices in their banks. 5% of the respondents indicated that EFTPoS was an available service innovation practice while only 4% of respondents indicated that Telephone Banking was an available service innovation practice in their banks. This service innovation was ranked as the least common form of service innovation practice in the respective banks in the survey.
4.4 Service Innovation Practices Usage by Customers

The respondents were asked to identify how frequently they used the service innovation practices that were available in their respective commercial banks using a five point scale where 5 meant very often and 1 meant not at all. The results are shown in Table 4.6.

Table 4.6 Frequency of Use of the Service Innovation Practices

<table>
<thead>
<tr>
<th>Service Innovation Practices</th>
<th>Not at all</th>
<th>Rarely</th>
<th>Sometimes</th>
<th>Often</th>
<th>Very Often</th>
<th>Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Relationship banking</td>
<td>31.9</td>
<td>2.5</td>
<td>18.7</td>
<td>3</td>
<td>43.9</td>
<td>100</td>
</tr>
<tr>
<td>Automatic Teller Machines (ATM)</td>
<td>18.7</td>
<td>7</td>
<td>6</td>
<td>12</td>
<td>56.3</td>
<td>100</td>
</tr>
<tr>
<td>Telephone Banking</td>
<td>75.5</td>
<td>1.6</td>
<td>2.5</td>
<td>18.7</td>
<td>1.7</td>
<td>100</td>
</tr>
<tr>
<td>Internet Banking</td>
<td>47.1</td>
<td>6</td>
<td>42.3</td>
<td>1.6</td>
<td>3</td>
<td>100</td>
</tr>
<tr>
<td>Branch Networking</td>
<td>1.2</td>
<td>0.5</td>
<td>18.5</td>
<td>12.5</td>
<td>67.3</td>
<td>100</td>
</tr>
<tr>
<td>Electronic Funds Transfer (EFT)</td>
<td>1.7</td>
<td>48.0</td>
<td>4</td>
<td>17.1</td>
<td>29.2</td>
<td>100</td>
</tr>
<tr>
<td>EFTPoS</td>
<td>1.6</td>
<td>2.4</td>
<td>63.0</td>
<td>12</td>
<td>19.4</td>
<td>100</td>
</tr>
<tr>
<td>RTGS</td>
<td>15.1</td>
<td>12.2</td>
<td>7.1</td>
<td>5.3</td>
<td>60.3</td>
<td>100</td>
</tr>
<tr>
<td><strong>Average Mean</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>3.27</strong></td>
</tr>
</tbody>
</table>

Source: Research data

The research findings revealed that 67.3% of the respondents used the Branch Networking service very often. 60.3% of the respondents used the RTGS system very often while 56.3% of the respondents used Automatic Teller Machines (ATMs) very often.

63% of the respondents indicated that they sometimes used EFTPoS as a service innovation practice while 42.3% of the respondents sometimes used internet banking as a service innovation practice. Of the respondents 18.5% indicated that they had sometimes utilized branch networking as a service innovation practice available to them. Only 4% of
the respondents utilized Electronic Funds Transfer as a service innovation practice sometimes.

Mean scores provided on Table 4.6 indicated that bank customers often utilized relationship banking, Electronic Funds Transfer and RTGS as service innovations available to them. Bank customers very often used Automatic Teller Machines and Branch Networking as service innovation practices available to them. In overall, bank customers utilized the service innovation practices available to them on an average scale of 3.27 as highlighted in Table 4.6. This indicates that most of the service innovation practices available in the banks were sometimes used by the customers.

4.5 Service Innovativeness of Commercial Banks in Kenya

The respondents were asked to identify the service innovativeness of their commercial banks using a three point scale where 3 meant very innovative and 1 meant not innovative. The results are shown in Table 4.7.

Table 4.7 Service Innovativeness of Commercial Banks

<table>
<thead>
<tr>
<th>Service Innovation Practices</th>
<th>Not Innovative</th>
<th>Innovate</th>
<th>Very Innovative</th>
<th>Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Relationship banking</td>
<td>23.1</td>
<td>66.4</td>
<td>10.5</td>
<td>100</td>
</tr>
<tr>
<td>Automatic teller machine</td>
<td>1.3</td>
<td>58.1</td>
<td>40.6</td>
<td>100</td>
</tr>
<tr>
<td>Telephone Banking</td>
<td>87.7</td>
<td>3.7</td>
<td>8.2</td>
<td>100</td>
</tr>
<tr>
<td>Internet Banking</td>
<td>23.4</td>
<td>75.0</td>
<td>1.6</td>
<td>100</td>
</tr>
<tr>
<td>Branch Networking</td>
<td>12.3</td>
<td>30.9</td>
<td>56.8</td>
<td>100</td>
</tr>
<tr>
<td>Electronic Funds Transfer</td>
<td>10.7</td>
<td>31.5</td>
<td>57.8</td>
<td>100</td>
</tr>
<tr>
<td>Electronic Funds Transfer at the Point of Sale (EFTPoS)</td>
<td>53.1</td>
<td>31.2</td>
<td>15.7</td>
<td>100</td>
</tr>
<tr>
<td>Real Time Gross Settlement System (RTGS)</td>
<td>11.2</td>
<td>51.3</td>
<td>37.5</td>
<td>100</td>
</tr>
<tr>
<td><strong>Average Mean</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>2.07</strong></td>
</tr>
</tbody>
</table>

*Source: Research Data*
The respondents were asked to rate the service innovativeness of their commercial banks. 57.8% of the respondents indicated that their commercial banks were very innovative in relation to Electronic Funds Transfer services. 56.8% of the respondents indicated that their banks were very innovative in Branch Networking services while 40.6% indicated that their banks were very innovative in relation to Automatic Teller Machines. Only 1.6% of the respondents indicated that their banks were very innovative in relation to internet banking services.

66.4% of the respondents indicated that their banks were innovative in relation to Relationship banking services. 58.1% of the respondents indicated that their banks were innovative in relation to Automatic Teller Machines while 51.3% of the respondents indicated that their banks were innovative in relation to RTGS services. Only 3.7% of the respondents indicated that their banks were innovative in relation to Internet Banking services.

87.7% of the respondents indicated that their banks were not innovative in relation to internet banking services while 53.1% of the respondents indicated that their banks were not innovative in relation to EFTPoS as a service innovation. Only 1.3% of the respondents indicated that their banks were not innovative in relation to Automatic Teller Machines as a service innovation practice.

Mean scores provided on Table 4.7 highlight that respondents indicated that banks are very innovative in Branch Networking, Electronic Funds Transfer and RTGS service innovation practices. The banks were not innovative in Telephone banking and EFTPoS as service innovation practices. In overall, commercial banks in Kenya are innovative as indicated by the average mean score of 2.07 highlighted in Table 4.7.

4.6 Extent of Satisfaction with Service Innovations Practices in Kenyan Commercial Banks

The respondents were asked to identify the extent of their satisfaction with the service innovation practices in the commercial banks in Kenya using a five point scale where 5
meant extremely satisfied and 1 meant not at all satisfied. The results are shown in Table 4.8.

Table 4.8 Customer Satisfaction with Service Innovations Practices

<table>
<thead>
<tr>
<th>Service Innovation Practices</th>
<th>Not at all %</th>
<th>Slightly Satisfied %</th>
<th>Moderately Satisfied %</th>
<th>Very Satisfied %</th>
<th>Extremely Satisfied %</th>
<th>Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship banking</td>
<td>42.2</td>
<td>34.4</td>
<td>5.3</td>
<td>14.2</td>
<td>3.9</td>
<td>2.28</td>
</tr>
<tr>
<td>ATM</td>
<td>1.2</td>
<td>12.4</td>
<td>5.2</td>
<td>23.4</td>
<td>57.8</td>
<td>4.20</td>
</tr>
<tr>
<td>Telephone Banking</td>
<td>34.4</td>
<td>23.4</td>
<td>15.1</td>
<td>3.7</td>
<td>23.4</td>
<td>2.55</td>
</tr>
<tr>
<td>Internet Banking</td>
<td>75.5</td>
<td>16.1</td>
<td>5.2</td>
<td>2.1</td>
<td>1.1</td>
<td>1.23</td>
</tr>
<tr>
<td>Branch Networking</td>
<td>5.7</td>
<td>14.6</td>
<td>23.4</td>
<td>32.9</td>
<td>23.4</td>
<td>3.59</td>
</tr>
<tr>
<td>EFT</td>
<td>1.5</td>
<td>32.8</td>
<td>3.1</td>
<td>18.8</td>
<td>43.8</td>
<td>3.77</td>
</tr>
<tr>
<td>EFTPoS</td>
<td>18.8</td>
<td>46.8</td>
<td>19.3</td>
<td>13.9</td>
<td>1.2</td>
<td>2.16</td>
</tr>
<tr>
<td>RTGS</td>
<td>29.3</td>
<td>10.1</td>
<td>18.4</td>
<td>3.8</td>
<td>38.4</td>
<td>3.16</td>
</tr>
<tr>
<td><strong>Average Mean</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>2.87</strong></td>
</tr>
</tbody>
</table>

Source: Research Data

Findings provided by the research indicated that 57.8% of the respondents were extremely satisfied with Automatic Teller Machines while 43.8% of the respondents were extremely satisfied with RTGS service innovation practices. Only 1.2% of the respondents indicated that they were extremely satisfied with Electronic Funds Transfer at the Point of Sale (EFTPoS) as a service innovative practice while only 1.1% were extremely satisfied with internet banking services.

23.4% of the respondents were moderately satisfied with branch networking services while 18.4% of the respondents were moderately satisfied with Real Time Gross Settlement (RTGS) system as service innovation practices.
The findings indicated that 75.5% of the respondents were not at all satisfied with Internet banking as a service innovation practice. 42.2% of the respondents were not at all satisfied with relationship banking services while 29.3% of the respondents were not at all satisfied with RTGS services. Only 1.5% of the respondents were not at all satisfied with Electronic Funds Transfer while 1.2% of the respondents were not at all satisfied with Automatic Teller Machines as service innovation practices.

Mean scores provided on Table 4.8 highlight that respondents were very satisfied with Automatic Teller Machines, Electronic Funds Transfer and Branch Networking service innovation practices. Respondents were moderately satisfied innovations in RTGS services and Telephone Banking services. Respondents were slightly satisfied with Relationship Banking as a service innovation practice. Findings also indicated that respondents were not at all satisfied with innovations in Internet Banking services. Average mean score of 2.87 as indicated in Table 4.8 highlighted that customers in the banking sector were moderately satisfied service innovation practices by commercial banks in Kenya.

Respondents further explained through the open ended questions that their level of extreme satisfaction was majorly attributed to the ability to access their bank account at any branch due to branch networking services innovation practices. Satisfaction with relationship banking was attribute to timely responses and feedback from the relationship managers. Other respondents were extremely satisfied with relationship banking services as they felt they received a personal touch from the bank. Respondents highlighted their extreme satisfaction with internet banking services was because the service enabled customers to conduct their banking through at their premises and hence saved them time to conduct other businesses. Internet banking, as a service innovation practice also reduced chances of the bank customers to lose money as the service reduces the level of human contact.

Respondents who were extremely satisfied with Automatic Teller Machines (ATMs) services outlined that this was because the ATMs were interlinked via either VISA or KENSWITCH network thus enabling the respondents to easily access their funds across
the country through interlinked money machines. This interconnection also led to increased convenience and reduced time spent in the banks.

Respondents who were extremely satisfied by service innovation in Electronic funds transfers and RTGS services occasioned this to reduced time lag between transmissions of funds. Respondents mentioned that both service innovations ensured quick transmission settlement of funds.

Respondents further explained through the open ended questions that their level of dissatisfaction with telephone banking services was occasioned by frequent downtime of the banks' customer care lines. Most of the respondents indicated that it was difficult to get through the care centre lines. In addition, respondents indicated they were not satisfied with the service as they usually experienced minimal follow up with their queries. Respondents were not satisfied with the innovations undertaken in relationship banking services due to lack of follow up by the relationship managers. Other respondents indicated that they were dissatisfied with the service as they were not aware of their relationship managers.

Respondents who were not satisfied with innovations in EFTPoS occasioned it to frequent downtime of the banks systems which have led to reduced utilization of the service. Respondents also indicated their level of dissatisfaction was due to fear that their accounts could be hacked by the service providers. Extreme dissatisfaction with the service was also occasioned by the limits placed on the number of transactions that the respondents could undertake in a day. Once the limit has been exhausted, respondents indicated that they were forced to utilize other bank service innovations that were less efficient.

**4.7 Influence of Service Innovation practices on Customer Satisfaction**

From the research data collected, the researcher sort to identify whether there existed a correlation between service innovation practices in banks and customer satisfaction. The findings are highlighted in Table 4.9.
Table 4.9 Correlation Analysis between Service Innovation Practices and Customer Satisfaction

<table>
<thead>
<tr>
<th></th>
<th>Service Innovation</th>
<th>Customer Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Innovation</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.887</td>
<td>.887**</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>Pearson Correlation</td>
<td>.887</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.55</td>
<td>0.55</td>
</tr>
</tbody>
</table>

a. Listwise N=105

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

Table 4.9 attached highlights a correlation coefficient of 0.887 exists between service innovation practices and customer satisfaction. These findings indicate that there exists a significant and positive correlation between service innovation practices in Commercial banks in Kenya and customer satisfaction.

The significant level of 0.55 highlighted in the Table 4.9 indicates that there is a very high confidence that service innovation practices greatly influence customer satisfaction since it is more than 0.5. This means that the more banks engage in service innovation practices, the higher the level of satisfaction experienced by their customers.

4.7 Service Innovation Activities that Commercial Banks should engage in to improve customer satisfaction

The respondents were asked to provide their opinions on the activities they thought the banks should engage in to improve customer satisfaction. This was done through the use of open ended questions to enable the respondents to provide diverse opinions.

Respondents indicated that commercial banks in Kenya should focus their attention on managing the ATM service through ensuring that instances of down time of the machines are reduced to improve efficiency and reliability of the service. Respondents also indicated that improved customer satisfaction would be achieved through timely communication by the banks to their customers of any changes concerning bank services available. Respondents also highlighted that to improve customer satisfaction, banks
should ensure that they effectively communicate any changes within the bank to their customers. Some of the respondents suggested that this communication should be conducted through the use of mobile alert or publishing the communication in the local newspapers.

4.8 Service Innovations that Commercial Banks in Kenya have also made available to their customers

The respondents were asked whether their banks had other additional service innovations that had not been highlighted by the researcher. The responses are as outlined in Table 4.10.

Table 4.10 Availability of Additional Service Innovations

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>57%</td>
</tr>
<tr>
<td>No</td>
<td>43%</td>
</tr>
</tbody>
</table>

*Source: Research Data*

The results in Table 4.10 indicated that 57% of the respondents' confirmed that commercial banks also offered additional service innovation practices that had not been outlined by the researcher in the research questionnaires.

Respondents indicated that additional service innovations offered by their banks include money transfer services including Western Union and Money Gram. Additional services offered include agency banking services and Pesa point Services that allowed customers to withdraw funds from service points other than the banks' ATMs.

4.9 Service Innovations that Commercial Banks in Kenya should make available to their customers to increase customer satisfaction

Respondents were asked whether they had suggestions of additional service innovation practices that they would like their banks to make available to them to increase their satisfaction. Majority of the respondents did not provide responses to this question.
However respondents who answered the question indicated that they would like their banks to provide mobile banking services. Other respondents requested that their banks should be able to provide online account statements that are integrated to their finance management software.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary
This chapter will discuss the service innovation practices in the commercial banking sector in Kenya. The discussion will establish the relationship that exists between the service innovation practices and customer satisfaction in the commercial banking sector. The chapter will also outline the conclusions of the study based on the research findings and provide recommendations for further studies.

5.1.1 Service Innovation Practices in the Commercial Banking Sector
The survey has revealed that indeed majority of commercial banks in Kenya have invested in service innovation practices. The defining difference is in the level of service innovation from one bank to another. The survey indicated that majority of the banks in Kenya have engaged in service innovations that have been geared towards increased flexibility for customers to access their money and at the same time lead to reduction of long queues in the banking halls. Towards these innovations, banks have invested heavily in Automated Teller Machines, Relationship Banking and offering Internet banking services.

The survey conducted also indicates that though a large range of service innovations were available in their banks, the utilization of these innovations has not been uniform and utilization of service innovations have majorly been in Automatic Teller Machines, Branch Networking and RTGS services. The survey also indicated that in overall the service innovation practices in commercial banks were often utilized by the customers.

The findings also indicated that commercial banks in Kenya continuously engage in innovation of the services they offer to their clients. This finding concur with Hall et.al (2006) descriptions of the outlooks of service innovation as creation of new or improved service products, as innovation in service processes through new or improved ways in designing and producing services which may include innovation in service delivery systems and finally innovation in service firms organization and industries. The survey
highlighted also that banks undertake continues improvement of already existing services.

5.1.2 Influence of Service Innovation Practices and Customer Satisfaction in the commercial banking sector

The survey revealed that the level of service innovations varied from bank to bank. The survey also revealed that the level of satisfaction of customers towards available service innovations by banks varied from service to service. Majority of bank customers have relatively higher satisfaction in Branch Networking services, Internet Banking and Automatic Teller Machines services. These services also ranked as being utilized extremely often by the costumers and hence providing a correlation between frequency of use of service innovations and customer satisfaction.

From the survey, the level of customer satisfaction with service innovations has been attributed mostly to qualitative features attached to the services including accessibility, feedback response, personalization of service offerings, flexibility and efficiency. These findings are supported by Dattakumar et.al, (2003) description that services cannot be seen, touched, tested or smelled, nor can they be possessed. The intangible process characteristics that define services can only be verified once a service has been bought and consumed. People do not always perform consistently and thus variations from one service to another within the same organization.

5.2 Conclusion

The study conducted has confirmed that indeed there exists a positive relationship between service innovation practices and the extent of customer satisfaction in the commercial banking sector. This indicates that the more banks engage in service innovation practices, the higher the level of the customer satisfaction. This conclusion is consistent with previous studies (Georghious et.al, 2006; Geogantzas et.al, 1995; Auluck, 2002; Dattakumar et.al, 2003; Byerlee et.al, 2002 and Lall, 2001)

There is overwhelming evidence that banks continuously invest in innovation of services offered to their customers. However, the level of innovation differs from service to service. The study has indicated that there is a direct correlation between the frequency of
use of the services by the customers and the amount of innovation undertaken by the banks. This relationship may be majorly due to the benefits accrued by both the banks and the customers to as explained by Hall et al, (2006) who indicated that service innovation benefits both the service producer and customers and it improves its developer's competitive edge.

Service innovation in banks is also conducted in varied degrees relative to the level of benefits generated by the service to both the bank and the customer. From the study, the banks highly concentrate in innovation of relationship banking services. The benefits of this innovation are highlighted in previous studies. Dattakumar et.al (2003) indicated that relationship banking can increase the banks earnings by maximizing the profitability of the total customer relationship over time, rather than by seeking to extract the most profit from any individual product or transaction. The investment by banks in the innovation of Automatic Teller machines has also been supported by studies conducted by Auluck (2002), who explained that ATMs enhance customer satisfaction as they save customers time in service delivery as alternative to queuing in bank halls, enabling them to invest such time saved into other productive activities. ATMs are also a cost-efficient way of yielding higher productivity as they achieve higher productivity per period of time than human tellers. Furthermore, as the ATMs continue when human tellers stop, there is continual productivity for the banks even after banking hours.

Customer satisfaction is measured through service quality that describes a customer's expectations. According to Lundavall, (2007) a business with high service quality will meet customer needs whilst remaining economically competitive. From the study, the extent of customer satisfaction with the bank services varied from one service to another. This is mainly attributed to the service encounters described by the customers including accessibility, feedback response, personalization of service offerings, flexibility and efficiency. These findings are supported by studies conducted by Metcalfe, (2006) who indicated that customers' perception of service quality and their satisfaction are profoundly influenced by their service encounters. A service encounter can be defined as the period of time during which a customer directly interacts with a service (Shoemaker,
This includes all features of service with which a consumer may have any kind of interaction, going from personal to physical facilitations, or even non-human interactions (Ogden & Wilson, 2000).

5.3 Recommendations
To the commercial banks in Kenya, the research would like to recommend that banks should continuously seek to indentify customer needs and further gear their innovations towards meeting these needs. Through this approach, banks will be able to continuously meet customer expectations and hence satisfy their customers through their service innovations.

The government should continue to create an enabling environment to facilitate continued service innovations by banks. Increased flexibility in the industry and infrastructure should be provided so as to bring about a level playing that will foster creativity.

5.4 Limitations of the Study
There was a limitation on the time and monetary resources. Secondly, many respondents were not willing to provide quantitative information requested in the questionnaires. It was also a challenge to get respondents to complete the questionnaires.

5.5 Suggestions for Further Research
Following the discussions highlighted in the study, the research suggests that further investigation should be conducted on what parameters and how banks determine the service innovation practices to engage in. In addition, further study should be conducted on the influence of service innovations on non commercial financial institutions in Kenya.
REFERENCES


APPENDIX I: LETTER OF INTRODUCTION

To the Respondent

Dear Sir/ Madam

RE: REQUEST TO COMPLETE THE QUESTIONNAIRE

I am a student at the University of Nairobi pursuing a Masters in Business Administration. I am carrying out a research for the partial fulfillment of the university requirements. The research is about the influence of service innovation practices on customer satisfaction in the commercial banking industry in Kenya.

I am therefore kindly requesting for your assistance in completing the questionnaire provided to enable me to complete the research. The information provided will be treated as highly confidential and will be used for academic purposes only.

Your co-operation in completing the questionnaire will be highly appreciated.

Yours faithfully

Martha Kiarie
MBA Student, University of Nairobi

Supervisor
Mrs Mary Kinoti
Lecturer, University of Nairobi
APPENDIX II: LIST OF SAMPLED COMMERCIAL BANKS IN KENYA

1 Kenya Commercial Bank Ltd
2 Equity Bank Ltd
3 Barclays Bank of Kenya Ltd
4 C-operative Bank of Kenya Ltd
5 Standard Chartered Bank (K) Ltd
6 CFC Stanbic Bank Ltd
7 I&M Bank Ltd
8 Commercial Bank of Africa Ltd
9 Citi Bank N.A
10 Diamond Trust Bank (K) Ltd
11 NIC Bank Ltd
12 National Bank of Kenya Ltd
13 Bank of Baroda (K) Ltd
14 Bank of Africa Kenya Ltd
APPENDIX III: QUESTIONNAIRE


Dear Respondent

In the event you bank with more than one financial institution, please provide responses in multiple questionnaires.

PART A: RESPONDENT INFORMATION

1. Name of respondent

2. Name of the financial institution you bank with

3. How many years have you banked with the financial institution indicated above.

4. Income Range (Optional)
   Less than Kes 100,000 ( )
   100,000-500,000 ( )
   500,000 and Above ( )

5. Age(Optional): ( >18-25 ) 26-35 ( ) 36-45
   46-50 ( ) 51 and above

6. Gender (Optional)
   Female ( ) Male( )

PART B: SERVICE INNOVATION

7. From the list below, tick the service innovations available in your bank

<table>
<thead>
<tr>
<th>Service Innovation Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship banking</td>
</tr>
<tr>
<td>Automatic teller machine</td>
</tr>
<tr>
<td>Telephone Banking</td>
</tr>
<tr>
<td>Internet Banking</td>
</tr>
<tr>
<td>Branch Networking</td>
</tr>
</tbody>
</table>
8. Please tick on the appropriate box how often you use the service innovation practices available in your bank. (On a scale of 1 to 5 where 1 represents Not at all and 5 represents Very often)

<table>
<thead>
<tr>
<th>Service Innovation Practices</th>
<th>Not at all</th>
<th>Rarely</th>
<th>Sometimes</th>
<th>Often</th>
<th>Very Often</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship banking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automatic teller machine</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet Banking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Branch Networking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electronic Funds Transfer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electronic Funds Transfer at the Point of Sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Time Gross Settlement System</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. Please tick on the appropriate box to indicate the extent to which you think your bank actively engages in service innovations practices. (On a scale of 1 to 3 where 1 represents Not innovative, 2 represents innovate and 3 represents Very innovative)

<table>
<thead>
<tr>
<th>Service Innovation Practices</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship banking</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automatic teller machine</td>
<td></td>
<td></td>
<td></td>
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<tr>
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<td></td>
<td></td>
</tr>
<tr>
<td>Internet Banking</td>
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<tr>
<td>Electronic Funds Transfer at the Point of Sale</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Real Time Gross Settlement System</td>
<td></td>
<td></td>
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</tbody>
</table>
PART C: SERVICE INNOVATION AND CUSTOMER SATISFACTION

10. Please tick on the appropriate box indicating to what extent you are satisfied by the service innovations practices available in your bank (On a scale of 1 to 5 where 1 represents not satisfied and 5 represents extremely satisfied)

<table>
<thead>
<tr>
<th>Service Innovation Practices</th>
<th>Not at all</th>
<th>Slightly Satisfied</th>
<th>Moderately Satisfied</th>
<th>Very Satisfied</th>
<th>Extremely Satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship banking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Real Time Gross Settlement System</td>
<td></td>
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</tr>
</tbody>
</table>

11. What in your opinion, is the cause of your satisfaction in the service innovations highlighted above

12. What in your opinion, is the cause of your dis-satisfaction in the services innovations highlighted above

13. What activities/practices your opinion, should your bank engage in to improve customer satisfactions for the services highlighted above
14. Does your bank have other service innovations not highlighted above?

Yes ( )    No ( )

15. If the answer to question 14 is YES, please list the other service innovations being offered by your bank

16. What other service innovations, in your opinion, would you like to be made available by your bank