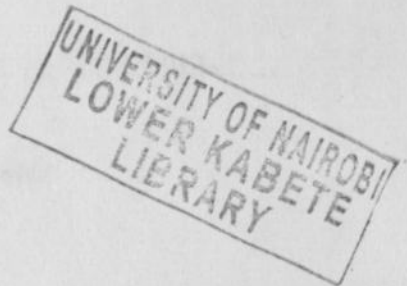


**SERVICE QUALITY PRACTICES AMONG COMMERCIAL BANKS IN
KENYA**

BY

MARK WAMBUGU NDEGWA

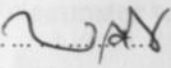


**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI.**

2012

DECLARATION

This research project is my original work and has not been presented for examination in any other University

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.....13/11/2012

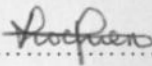
Signature

Date

MARK WAMBUGU NDEGWA

(D61/70912/2008)

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

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.....13/11/2012

Signature

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I would like to appreciate my lecturers for their dedication to impart knowledge, indeed their insights have been in the least quite inspiring. In the same line I would really want to appreciate my classmates whom we have interacted with and assisted each other on the course of this study and who continue to be of great inspiration in this endeavour.

I would also like to appreciate my supervisor, Mr. Stephen Odock for his guidance, suggestions, constructive criticism and patience throughout the research project.

Finally I really appreciate my immediate family members who have continuously encouraged me and supported me in the course of pursuing my studies. Thank you all and may the good Lord always bless you and keep you.

DEDICATION

This study is dedicated to the Almighty God for his divine interventions in my life. Without His strength and wonderful provision I would not have made it thus far.

I also wish to dedicate this study to my family. You have been behind me all the way, even when i felt like giving up. Special dedication is to my mother, Agnes Wambui Ndegwa, for continuously reminding me of my goal.

ABSTRACT

In every modern organization, service quality is a cornerstone upon which the very survival of the organization relies on. The market for quality services has become very competitive. It is no longer advantageous to have or provide quality service to customers but has now become necessity. Banks have not been left behind in this development. Commercial banks in Kenya have been given an increasingly great task to meet customer changing needs while remaining profitable at the same time. Banks have carried out various service quality measurement techniques so as to gauge themselves on their performance. This measurement is important so as to get an idea of what they have done so far and what needs to be done to remain competitive.

This study looked at the common service quality practices among the commercial banks in Kenya. It looked at the extent to which service quality measurement is undertaken by Kenyan banks. It also looked at what techniques are used in this measurement. Lastly it identified challenges faced in service quality measurement. The study was undertaken by carrying out a census of all the commercial banks in Kenya. The research instrument used was a questionnaire that was distributed by drop-and-pick-later method.

The study concluded that banks have done extensive work in conducting service quality measurement. Banks use various models or tools to measure this service quality. The most common models used are the SERVQUAL and SERVPERF models. Banks have put more emphasis on measuring service quality of front office departments where there is more direct contact with customers. Bank staff, however do not seem to appreciate service quality measurement and therefore do not support it. Banks have been advised to put more emphasis on using service quality tools on the operations of back office or support departments. Banks have

also been encouraged to use appropriate tools that will allow for comparison between themselves and their competitors.

Executive Summary

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NHIF - National Hospital Insurance Fund

NC - Normal quality

F-C-P - Firms Core Competence

SERVPERF - Service performance

SERVQUAL - Service quality

ABBREVIATIONS AND ACRONYMS

CBK - Central bank of Kenya	pg 21
EP – Evaluated performance	pg 23
JKIA – Jomo Kenyatta International Airport	pg 23
KBA – Kenya bankers association	pg 24
NHIF - National Hospital Insurance Fund	pg 26
NQ – Normed quality	pg 28
P-C-P - Pivotal Core Peripheral	
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The service industry has enjoyed tremendous growth in business. This is in line with developments in the western world as business moves from a more manufacturing based view to more service-oriented business. With this growth has emerged the issue of increased competitiveness among industry players. One challenge to doing business is the issue of providing quality to their consumers. Since most of these companies offer similar products which are of intangible nature (services), it has become quite important to find ways to differentiate their offerings so as to remain relevant and have a competitive edge over competitors. This also relates to manufacturing industry companies as they are also interested in how to improve their services, as a way of building relationships with their customers (Kowling, 2002).

Service quality is the key to improving a company's position in the market. It has become a dominant marketing strategy for companies (Aarabontang, Mc Cleary and Swan,

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

As globalization and liberalization of markets and institutions accelerate, competition among organizations in offering products and services has become more intense. Research has proven that in today's world, the key to sustainable competitive advantage lies in delivering high quality services that will in turn result in satisfied customers (Shemwell, Yavas, and Bilgin, 1998). This has led to service quality gaining a lot of prominence as a topic of research (Schneider and White, 2004).

The service industry has enjoyed tremendous growth in business. This is in line with developments in the western world as business moves from a more manufacturing based view to more service-oriented business. With this growth has emerged the issue of increased competitiveness among industry players. One challenge to doing business is the issue of providing quality to their consumers. Since most of these companies offer similar products which are of intangible nature (services), it has become quite important to find ways to differentiate their offerings so as to remain relevant and have a competitive edge over competition. This also relates to manufacturing industry companies as they are also interested in how to improve their services, as a way of building relationships with their customers (Dowling, 2002)

Service quality is the key to improving a company's position in the market. It has become a cornerstone marketing strategy for companies (Asubonteng, Mc Cleary and Swan,

1996). This means that service-based companies are compelled to provide excellent services to their customers in order to have a sustainable competitive advantage. There is however, a need for these organizations to understand what service quality is in order to attain their objectives.

1.1.1 Service Quality

Service quality is a concept that has interested various scholars especially in its research literature. This is because of the difficulties in defining and measuring it with no overall consensus emerging on either (Wisniewski and Donnely, 1996). Various scholars define service quality in different ways. Parasuraman, Zeithaml and Berry (1988) state that service quality is determined by the differences between customer's expectations of services provider's performance and their evaluation of the services they received. Asubonteng et al, (1996) define service quality as "the difference between customers' expectations of service performance prior to the service encounter and their perceptions of the service received". Gefen (2002) also defines service quality as the subjective comparison that customers make between the quality of the service that they want to receive and what they actually get. Service quality is an attitude related but not equivalent to satisfaction that results from comparisons of expectations and performance (Bolton and Drew, 1991).

From these definitions, we can conclude that service quality is based on customers' judgment and expectations. By understanding what customers perceive as service quality, it will be easy for a company to ensure that it meets these expectations and even exceed them. It is clear that service quality is about ensuring customers, both internal and

external, get what they want. Satisfaction and service quality are often treated together as functions of customer's perceptions and expectations (Cronin and Taylor, 1992). Customer satisfaction is a state of mind in which the customer needs, wants and expectations throughout the product or service have been met or exceeded, resulting in future repurchase and loyalty (Anton, 1996). Customer satisfaction is determined by defining customer perceptions of quality, expectations, and preferences. Research has shown that high service quality contributes significantly to profitability (Cronin and Taylor, 1992).

The banking industry in Kenya is governed by the Banking Act, the Companies Act, the Researchers and managers alike are keen on measuring service quality accurately in order to have better understanding of its consequences. This will enable them to come up with methods for improving and measuring service quality in search of a competitive advantage. Measurement allows for comparison before and after changes, for the location of quality related problems and for the establishment of clear standards for service delivery (Siadat, 2008).

The complexity of services, along with the growing importance of the services sector has increased the need for better service quality. It allows an organization to differentiate itself from its competitors by increasing sales and market share. This in turn leads to satisfaction and retention of customers, thus reducing turnover rates (Shemwell et.al, 1998).

1.1.2 Commercial Banks in Kenya

Banks play important roles in the whole economy. Banks, for example influence the level of liquid money in circulation by creating deposit liabilities. Banks also assist in creating capital in the economy by offering funds saved with them to borrowers who undertake business with these funds. Banks provide employment to a number of the population. This goes a long way in reducing the high unemployment levels in the country. Banks help small businesses access funding thus providing self employment opportunities and entrepreneurship.

The Banking industry in Kenya is governed by the Banking Act, the Companies Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). Kenya currently has 43 licensed commercial banks to carry out the business of financial mediation (CBK, 2011). In recent years, this sector has enjoyed tremendous growth in assets, profitability, deposits and product offering (CBK, 2007). This growth can be attributed to an aggressive network expansion locally and regionally undertaken by most banks in an effort to get the previously 'unbankable' segment of society. Secondly, growth can be attributed to automation of many services offered by banks including introduction of ATM services, mobile banking and internet banking services. Banks have experienced increased competition in the last few years. This has been due to increased innovations among the competitors and new entrants in to the market (CBK, 2005).

One issue for banks is stiff competition among themselves. The increasingly competitive environment means that profitability becomes strained and this has forced banks to work

more efficiently to maintain market share and even increase it. A positive aspect out of stiffer competition is that there is greater choice available to the consumer, leading to more sophistication and technology in banks. This is where service quality has become an important factor to consider for banks as it is the only way of differentiating themselves. Since banks offer homogenous products with little to differentiate between them, the way in which these services are offered has become the differentiating factor.

Banks have put a lot of their resources into looking at ways of improving their services. But before they can fully appreciate the quality of their services, they have to be able to measure how good they are doing in comparison to their competitors and the industry benchmark. By improving service quality, banks improve or increase their importance in the economy (Fatima & Gnanadhas, 2011). Service quality has become one of the most important issues addressed by the banks as they strive to remain relevant. Improving service quality has been directly related to improved customer satisfaction and therefore customer retention (Anton, 1996). There is need to have a proper means of measuring and understanding this service quality so as to improve the service offering.

1.2 Research problem

Service quality measurement has become of paramount importance to companies in the service industry. Companies have realized a need to maintain high levels of quality service so as to attract new customers and retain existing ones. Competition has become very fierce that any lapses in service delivery may prove very costly to an organization. This new realization of the importance of service quality has led to the need for the

measurement of service quality. Service quality is an intangible aspect and therefore to measure it is not easy. The best way of measuring service quality is by trying to understand customers' perception of quality.

In recent years, commercial banks in Kenya have experienced fierce competition among themselves. Quality of service has become a major concern for these banks (Munusamy et.al, 2010). There have been numerous complaints leveled against some of the local banks concerning their quality of service. Their main areas of contention include long queues, improper handling by bank staff and slow response to their concerns by the banks. However, some of the banks have not been on the receiving end of such complaints. They have endeavored to measure service quality and meet these standards of quality service expected of them by their customers (Abishua,2010). These banks have experienced better business than their competitors.

Many studies have been carried out on measuring quality in various industries including banking, hotel, library, airline industries. These studies were industry-specific and measured service quality levels in particular organizations. Kibor (2008) did a study on services offered by the National Hospital Insurance Fund. This was after N.H.I.F. had implemented certain service delivery changes. The study was to measure the expectations and perceptions of the customers and thereby measure the differences between the two. The study revealed that N.H.I.F. meets its customer's expectations, but there was still a lot of room for improvement.

Gituanja (2006) carried out a research on service quality at the Jomo Kenyatta International Airport (JKIA). The study found that the airport had not met any of the customer expectations. This was because there were negative gaps between customer perceptions and expectations in all eight variables that were under investigation. Gachie (2008) studied service quality among commercial banks in Kenya. He set out to determine the service quality priorities being employed by large and smaller banks in Kenya. In his study, he found out that customer expectations were always higher than performance received. Gachie however did not look at the extent of application of these models and tools. He also did not look at the benefits and challenges of such application. It is clear from the above studies that they mostly concentrated on what the customers perceived as the most important dimensions of quality in the services provided.

No major study within the Kenyan context has been carried out on the service quality techniques used by banks. There is a need to know what particular service quality measurement techniques and practices have been applied in the banking industry. There is also a need to get how these techniques have been applied and in what areas of bank operations. Lastly, there is a need to understand the challenges encountered when measuring service quality. The study will try to answer the following questions: What techniques are being used by commercial banks in measuring service quality? What challenges have been encountered by banks in measuring service quality?

1.3 Objectives of the study

- i. To determine the extent to which commercial banks measure service quality.

- ii. To determine the techniques used by commercial banks in measuring service quality.
- iii. To determine the challenges encountered by commercial banks in Kenya in measuring service quality.

1.4 Value of the study

The study will seek to generate knowledge that will have both practical and theoretical importance. From the practical point of view, it will be beneficial to banks in explaining the benefits of measuring service quality. Banks can use the knowledge gathered to compare their performance within the industry so as to know how well they are doing. This will also assist banks come up with policies that will enable them to stay competitive in the industry. Banks that have not yet adopted service quality models as a way of directing policy making, or banks adopting other models may be compelled to make these models their measurement tools. Other financial institutions including SACCOs, mortgage companies, insurance companies and investment banks will also use the findings to set up service measurement models. Lastly Central Bank of Kenya and other financial regulatory bodies will find such findings important as they watch over their industry players.

The knowledge acquired will also be of theoretical importance. It will add to the already existent body of knowledge on service quality and its management and measurement. It will be beneficial to students studying service quality in banking and other industries. The study will also be used as a basis upon which other further studies will be carried out.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter starts by looking at service quality. A few definitions of the concept are given and the dimensions of service quality are mentioned. The service quality approaches are then described and some of the most common models used looked at. Challenges encountered in the measurement of service quality are then mentioned. The chapter ends by looking at related studies conducted within Kenya.

2.2 Service Quality

Service quality is a concept that has been difficult to both define and measure, and there has been no clear consensus on either (Wisniewski, 1996). There are a number of definitions that have been put forward as to what is meant by service quality. One defines service quality as the extent to which a service meets customer's needs and expectations (Lewis and Mitchell, 1990). Parasuraman, Zeithaml and Berry (1988) state that service quality is determined by the differences between customer's expectations of service provider's performance and their evaluation of the services they received.

Asubonteng et al, (1996) define service quality as "the difference between customers' expectations for service performance prior to the service encounter and their perceptions of the service received". Gefen (2002) also defines service quality as the subjective comparison that customers make between the quality of the service that they want to receive and what they actually get. From these definitions, we can conclude that service quality is based on customers' judgment and expectations.

Service quality has numerous dimensions depending on the service industry in question. However, five dimensions are considered the most important and encompass the rest (Parasuraman et al, 1988). These dimensions are reliability, responsiveness, assurance, empathy and tangibles. Reliability is the ability of a service provider to implement the promised service dependably and accurately (Wong and Sohal, 2003). Responsiveness on the other hand is defined as the willingness of the service provider to provide service quickly and accurately (Johnston, 2006). It includes the willingness to help the customer, prompt attention to requests and complaint handling. Assurance is the credibility, competence and security assumed in delivering services (Juwaheer and Ross, 2003). Empathy on the other hand is related to caring, attention and understanding the customer needs when providing service. Tangibles refer to the Physical facilities, equipment, and appearance of personnel.

2.3 Service quality approaches

The need to measure service quality has led to the development of various service quality measurement tools. These tools are basically models based on different approaches to service quality and its measurement. The various approaches include; Expectancy-disconfirmation approach. This approach focuses on finding a gap between what customer expects and what they actually experience as service. Technical and functional dichotomy approach identifies two service components that lead to customer satisfaction. These two components are technical quality of the product and the functional quality.

Performance-only approach is an approach that measures service quality by assessing customer's satisfaction levels after a service encounter. Service quality versus service satisfaction approach links perceived quality at the service encounter with the total or overall satisfaction with the service. The company has control over attributes of service and therefore over perceived quality. Attribute importance approach focuses on the relative weight on importance consumer places on attributes found to be linked with service satisfaction.

2.4 Service quality models

Scholars envisage that conceptual models in service quality enable management to identify quality problems and in this way assist in planning for a quality improvement program, thereby improving the efficiency, profitability and overall performance (Seth and Deshmukh, 2005).

2.4.1. The GAPS model

According to the service gap theory, service quality process can be examined in terms of the gaps between expectations and perceptions on the part of management, employees and customers (Oliver, 1997). If the customer's expectation of service doesn't match the perception of service delivered, customers become dissatisfied. This service gap theory was based on the Gaps- model derived by Parasuraman et.al (1985). The gaps were as follows: Gap one between consumers' expectation and management's perceptions of those expectations (not knowing what consumers expect). Gap two between management's perceptions of consumers' expectations and service quality specifications (wrong service-quality standards). Gap three between service quality specifications and service delivery (the service performance gap). Gap four between service delivery and external



communications to consumers about service delivery (when promises do not match delivery). Gap five between consumers' expectation and perceived service (the total of the other four gaps).

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

2.4.2. SERVPERF model

Cronin and Taylor (1992) came up with the performance only model. They investigated measurement of service quality and its relationship with consumer satisfaction and purchase intentions. They compared computed difference scores with perception. They came up with the conclusion that perceptions only are better predictor of service quality and dropped expectations from the equation. Their argument was that SERVQUAL confounds satisfaction and attitudes. They concluded that service quality can be conceptualized as 'similar to an attitude'. They came up with the SERVPERF tool. This tool measures service quality just by evaluating the customer's overall feeling towards the service.

2.4.3. P-C-P model

Philip and Hazlett (1997) developed the Pivotal-Core-Peripheral model. In this model, every service consists of three overlapping areas which cover the vast majority of the dimensions and concepts of other models. These ranked levels are pivotal (output), core and peripheral (representing inputs and processes). The pivotal attributes located at the

apex of the pyramid representing the three levels are considered collectively to be the most important. They exert the greatest influence on satisfaction levels. They are defined as the 'end products' or 'output' from service encounter.

Core attributes, centered on the pivotal attributes, can be described as the combination of the people, processes and the service organizational structure through which consumers must interact and negotiate so that they can achieve pivotal attributes. The third level of the model focuses on the peripheral attributes which can be defined as the 'incidental extras'. They are designed to make the service encounter more complete and make the whole experience for the consumers a complete delight. When the consumer makes an evaluation of any service encounter, he is satisfied if the pivotal attributes are achieved but as the service is used more frequently, the core and peripheral attributes may begin to gain importance.

2.4.4. Attribute service quality model

Haywood-Farmer (1988) came up with the attribute service quality model. It involves separating attributes into various groups. Generally, services have three basic attributes: physical facilities and processes; people's behavior; and professional judgment. Each attribute consists of several factors. In this model, each set of attributes forms an apex of a triangle model. Too much concentration on any one of these elements while ignoring or excluding the others may lead to disaster. The combination of all the three attributes will lead to success for the service organization.

2.4.5. EP model and the NQ model

The Evaluated Performance (EP) model was developed by Teas (1993) to overcome problems associated with the gaps-model approach to service quality. It measures gap between perceived performance and the ideal amount of a feature, and not customer's expectation. The model assumes that an individual evaluates an object with perceived certainty and that the object has a constant amount of each attribute. He also assumed that the perceived ability of the product to deliver satisfaction can be viewed as the product's relative congruence with the consumer's ideal product features. Teas (1993) also came up with the Normed Quality (NQ) model. In this model, there is an excellence norm that is an ideal object with ideal attributes. The quality of another object relative to the quality of the excellence norm is what is termed as normed quality.

2.4.6. IT alignment model

Berkley and Gupta (1994) came up with the IT alignment model that links the service and the information strategies of the organization. The model describes in detail where IT has been used or could be used to improve specific service quality dimensions. According to the model, it is important that service quality and information system strategies be tightly coordinated and aligned. The model can help an organization realize the complete benefit of using information systems to deliver improved service quality. It also allows managers to understand the commonly used technologies in their industry and choose the most appropriate ones that suit their work environment. The model's shortcomings include the fact that it only highlights the impact of IT on service quality. It also does not offer a clear way to measure and monitor service quality. Lastly, the model is silent on the level of IT use appropriate for various service settings.

2.4.7. Technical and Functional model

Grönroos (1984) came up with the Technical and Functional quality model in which he concluded that a firm needs to understand customers' perception of quality and the way service is influenced for it to deliver good service. He came up with three components of service quality namely: technical quality, functional quality and image. Technical quality is what customer actually receives as a result of his/her interaction with the firm. Functional quality on the other hand is how he/she gets the technical outcome. Lastly, image is very important to the firm itself.

2.4.8. Synthesized model of service quality

Brogowicz, Delene, and Lyth (1990) came up with the synthesized model of service quality. This model states that a service quality gap may exist even when a customer has not yet experienced the service but learned through word of mouth, advertising or through other media communications. This is because such potential customers may already have perceptions about the service. Thus there is a need to incorporate potential customers' perceptions of service quality offered as well as actual customers' perceptions of service quality experienced. The model considers three factors, namely company image, external influences and traditional marketing activities as the factors influencing technical and functional quality expectations.

2.4.9. Technology based self service model

Dabholkar (1996) proposed two models of service quality for technology based self-service options. The attribute model is based on cognitive approach to decision making. Consumers use a compensatory process to evaluate attributes associated with the

technology based self-service option so as to form expectations of service quality. The overall affect model on the other hand is based on the consumer's feelings towards the use of technology. It is where consumers use overall predispositions to form expectations for self service quality. These two models have two shortcomings. First of all, the effect of demographic variables, price, and physical environment is not considered. Secondly, the models need to be generalized for different self-service options.

2.5 Challenges in measuring service quality

Service quality measurement is a complex activity that is faced by various challenges. There are various reasons for the challenges. One of these is that services have certain inherent characteristics that make them different from products and this makes it difficult to measure service quality. One of these characteristics is that services are intangible, meaning they cannot be touched, held or felt. Secondly, services cannot be stored as they are consumed as they are produced. Challenges may also arise due to a lack of clear and measurable parameters for determination of service quality. One challenge in measuring service quality is how to conceptualize quality. There are various conceptualization methods that can be used, and based on these; there are various scales that can be used to measure service quality. Numerous scales make comparison difficult (Cronin and Taylor, 1992).

Another challenge is developing specific quality dimensions that are specific to the business needs of an organization. There are numerous quality dimensions and an organization opts to consider only those dimensions that relate to its business needs. To develop these dimensions is a complex process and not easy to relate to business needs of

the organization. Aligning the measurement technique(s) of choice to the service quality dimensions is another challenge. This is especially the case where the technique is to be used in different sections of the organization which are quite different from each other.

2.6 Related studies in Kenya

Kibor (2008) undertook a study on service quality while focusing on NHIF. Her study intended to find out the perception of consumers towards the quality of services offered by NHIF. This was after NHIF had carried out some service delivery changes. She differentiated her study from the one carried out by Gitobu (2006) which had concentrated on perception of hospitals towards NHIF. Her study was keen on understanding the expectations of consumers in Mombasa on services rendered by NHIF. The study found out that customers generally had high expectations. Customer perceptions were however low. The expectations matched the perceptions on most of the service quality dimensions but only satisfactorily. This implies that although NHIF meets expectations of customers, the level of service is not exceptional and there is room for improvement.

Gachie (2008) undertook a study on service quality by applying the SERVQUAL model to commercial banks in Kenya. He considered the model as a more objective measure than adverts by banks. His objectives for the study were to determine service quality priorities employed by both large and smaller banks. It also was to determine what defined service quality models have been employed and how these models relate to SERVQUAL. Thirdly, he was to determine whether banks adhere to the existing service

quality models and lastly to compare quality levels in Kenyan banks. The study revealed that customer perceptions of banks services were lower than expectations. It also showed that local banks don't put a lot of emphasis on quality programs unlike international banks. International banks have low expectations as compared to local banks since they have stringent control measures. The study did not however look at the question of other models that may have been used by banks.

The study to be undertaken will concentrate on the extent of application of quality measurement techniques used by banks. It will also try to find out what measurement practices are used by commercial banks in Kenya. This will help in confirming the importance of service quality measurement and use of these models to banks and other organizations.

2.7. Summary

Service quality models have been in use in many industries for a while now. The use of these models affects the performance of banks in various ways. It can be assumed that they have a positive effect on the performance of banks. However, it is not known how the use of these models affects bank performance specifically and therefore there is a need for such a study to be conducted. The study will also help to find out which models are best to use when measuring service quality. The study will also provide invaluable information on extent of use of measurement tools in studying service quality and the challenges encountered in doing so.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

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

3.2 Research design

The research design that was used was a descriptive survey design. A descriptive design is suitable to obtain information concerning the current status of the phenomena in question and to describe “what exists” with respect to variables in the situation. It basically describes market characteristics and how the particular object of study is used in the industry.

3.3 Population of the study

The target population of the study was all the commercial banks in Kenya. According to the CBK these total up to 43 banks as at February 2012. Because the population is relatively small, a census was undertaken. This means the whole population was studied.

3.4 Data collection

Primary data was collected using a semi-structured questionnaire which was administered through 'drop-and-pick-later' method. The subjects interviewed were senior bank staffs who are involved in service quality policy formulation. They were individuals of different designations depending on the various banks. In some of the banks, the Operations Managers completed the documents but in others, staff members working under the Operations Manager completed the document.

The questionnaire was divided into 4 sections. Section A consisted of questions on the demographic profiles of the subjects. Section B concentrated on finding out the various areas of bank operations where measurement has been done and to what extent this measurement is done. Section C took a look at the general characteristics of the most popular measurement models. Respondents were asked to choose characteristics that are similar to the measurement techniques that they use. Section D analyzed challenges encountered by banks in service quality measurement.

Table 4.1: Respondents by profitability levels

3.5 Data analysis

Profitability levels	Frequency	Percentage
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The data collected was analyzed using Microsoft excel spreadsheets. Descriptive statistics were used to analyze the processed data. The data in section A of the questionnaire on demographic factors was analyzed using frequencies and percentages. Data on section B, C and D was analyzed using standard deviation and mean scores. The findings were presented in tabular form.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The purpose of this chapter is to describe the results of the study based on the research methodology steps followed in chapter three. The chapter is divided into two sections. The first section deals with demographic information about the respondents. The second section deals with the analysis and discussion of data from the questionnaire. Of the 43 bank officials who were provided with the research questionnaire, 30 of them completed the document representing a 69.7% response rate.

4.2 Demographic Data

In this section, information on respondents is presented and analyzed in order to show distribution of the respondents by profit levels and branch numbers within the industry.

4.2.1 Profitability levels

Table 4.1: Respondents by profitability levels

Profitability levels	Frequency	Percentage
Below 1 Billion	11	36.7
1 billion- 3 billion	11	36.7
Above 3 billion	8	26.6
Total	30	100

Source: research data

Table 4.1 illustrates the distribution of the study respondents according to profitability levels. It shows that the population is evenly distributed within the three major strata with a majority of the banks posting profits below 3 billion. The results are shown in

4.2.2 Branch network

Table 4.2: Respondents by branch network

Number of branches	Frequency	Percentage
1 – 5 branches	4	13.3
5- 10 branches	8	26.7
10- 40 branches	12	40
Above 40 branches	6	20
Total	30	100

Source: research data

Table 4.2 illustrates the distribution of the study respondents according to branch network or number of branches. From the table, it can be seen that most banks have branch network ranging between 5 and forty branches. Banks having between one to five branches account for 13.3 % and those having above forty branches account for 20%.

4.3 Measurement of service quality

In this section, the respondents were to indicate the degree to which service quality is measured in their organization in various departments. This indicates the level of

importance of each department and how the organization values customers' experience with the department. A 5-point Likert scale was used with 1 indicating 'poor application' of measurement techniques and 5 indicating 'extensive use'. The results are shown in table 4.3.

Table 4.3: Application of measurement techniques in bank departments

Department	Mean rating of application	Std deviation	Ranking
Front office/Customer care	4.63	0.81	1
Forex department	4.34	0.67	2
Cash department	4.27	1.08	3
Loans and Advances dept	4.2	0.81	4
Processing department	4	0.87	5
IT department	3.9	0.92	6
Overall mean	4.22		

Source: research data

Table 4.3 indicates that banks have applied measurement techniques extensively in all departments. The mean rating indicates that most respondents gave a high rating in terms of application of measurement techniques. The overall mean rating was 4.22 meaning that banks have tried to apply service quality measurement in all areas. The departments

with the highest ratings are front office /customer care with a mean of 4.63, cash department with a mean of 4.27 and forex department with a mean of 4.34. This is because these departments are the points at which the customer has direct contact with the organization. It indicates that banks take great care to ensure customers receive quality service at the front office department.

From the table it is also clear that the support departments receive less emphasis on service quality measurement. IT department received a mean rating of 3.9 while processing department received a rating of 4. This is because these departments are not in direct contact with the customer.

Table 4.4: Statements concerning service quality measurement in banks

STATEMENT	Mean rating	Std deviation	ranking
Service quality measurement is an important activity to the bank	4.87	0.35	1
The introduction of service quality measurement has led to increased customer satisfaction	4.3	0.65	2
Service quality measurement has led to improved bank performance	4.2	0.61	3

The measurement tool in use in my bank allows for comparison between periods	3.63	0.76	4
Service quality measurement has led to better strategy formulation	3.6	0.87	5
The measurement tool in use in my bank is easy to use	3.5	0.97	6
Service quality measurement has led to process efficiency due to reduction of job processes	3.5	0.86	7
Service quality measurement and management has led to increased staff job satisfaction	3.5	0.82	8

Source: research data

The above statements in table 4.4 present how banks value service quality management. Respondents were to choose one out of the five available options. These were analyzed using a 5-point Likert scale with 5 representing strongly agree (SA) and 1 representing strongly disagree (SD). There was a strong indication that service quality is an important activity to their banks. Respondents were also in agreement that service quality measurement has led to increased customer satisfaction. This can be related to the fact that banks put a lot into the measurement of service quality in front office departments or

operational areas. However, this measurement has not been fully appreciated by employees as staff job satisfaction cannot be related to service quality measurement.

Most respondents agreed that generally, measurement had led to better bank performance. This is due to increased customer satisfaction. Statement seven indicates that some of the banks do not enjoy better job process efficiency as a result of reduction of job processes. Half of the banks do not relate service quality measurement to better strategy formulation.

4.4 Techniques used in the measurement of service quality

In this section, the respondents were asked to indicate which characteristics of service quality measurement techniques are similar to those employed in their banks. This way, it is easier to find out what service models, the banks have modeled their service quality measurement techniques around.

Table 4.5: Characteristics of common service quality measurement tools

CHARACTERISTIC	NO OF RESPONDENTS
Measures customers expectations of the service to be provided	27
Measures customers perceptions of the service they receive	25
Compares customer expectations against the company's performance	15
Compares customer perceptions of service provided against	21

company's performance	
It divides service in to inputs, processes and outputs	10
It measures the gap between perceived performance and the ideal amount of the feature	8
Measure the gap between excellence norm of an ideal object with the actual quality of the measured object	6
Links service quality and information strategies of the bank	15
Measures the gap between front office staff expectations and perceptions of support staff performance	14
Involves separating various attributes of service into groups	6

Source: research data

Table 4.5 shows that these banks do not use specific models in measuring service quality but rather a combination of some of the models in various operational areas. The most commonly used model is SERVQUAL which is the most popular and most discussed measurement model in service quality literature. It is explained by statement one and three. The second most used model is SERVPERF model which doesn't consider expectations in its measurement. It is represented by statements two and four. Most of the respondents who chose these two models also chose the ninth statement which is derived from the Internal Service Quality model. This model is normally used to measure service quality of support departments for example Human Resource and IT departments. The large banks also use the IT Alignment model which links IT strategies to the overall organization's operations. The least used models are the Evaluated Performance model, Normed Quality model and Attribute Service Quality model.

4.5 Challenges encountered during measurement of service quality

In this section, the respondents were asked to indicate which challenges their banks encountered during service quality measurement. These challenges are then to be ranked according to which have the greatest effect on service quality measurement. A 5-point Likert scale was used with 1 indicating 'No influence' and 5 indicating 'very much'. The results are shown in table 4.6.

Table 4.6: Challenges encountered in measuring service quality

Challenge	Mean	Std dev	ranking
Aligning the measurement techniques to the service quality dimensions	3.57	0.97	1
Developing service quality dimensions and relating them to business needs	3.48	1.06	2
Difficulty in gathering data on the measurement parameters	3.43	1.14	3
It is difficult to identify what particular parameters to measure	3.28	1.31	4
Difficulty in conceptualizing service quality	3.1	1.32	5
Having little control over the environmental conditions in the service encounter	2.97	1.27	6

Measurement interfering with provision of the service as it goes on	2.93	1.16	7
There is resistance from participants of the process especially from staff members	2.63	1.27	8

Source: research data

As indicated by Table 4.6, the greatest challenge for commercial banks is to align measurement techniques to the service quality dimensions. Banks have problems choosing what service quality models to use as they do not know how to identify service quality dimensions to measure. This is closely related to the second challenging issue for the banks which is to develop those service quality dimensions and link them to the organization's business needs. The third challenging issue for banks is gathering data on the measurement parameters. Banks find it difficult to gather data on service quality as they do not know the measurement parameters.

Banks also find it challenging to identify what particular parameters to measure. This is because service quality is an intangible aspect. Conceptualizing service quality is not a major challenge for the banks as indicated by the respondents. Banks clearly understand what service quality is and what is expected of them. Banks also are in control of their environmental conditions in the service encounter. This means that they are able to improve on the environment so as to make the customer enjoy better service. Another issue that respondents indicated to be of little consequence was measurement of service quality interfering with provision of service. Customers are willing to be queried on their

perceptions of the service they get even as they receive it. Lastly, respondents clearly stated that employees were in total agreement with service quality measurement and they did not perceive it as a way of trying to find their faults.

5.1 Introduction

The purpose of this chapter is to give a summary of the results that were analyzed in chapter four. Conclusions are drawn up concerning the research objectives that were under study. Recommendations will then be made as to the way forward for banks concerning service quality measurement. There will be areas in which they need to improve on in the measurement of service quality. Limitations encountered during the study will then be looked at. Finally the chapter will end with suggestions being proposed for further study or research.

5.2 Summary

The population of the study was 43 banks. 30 banks responded by completing the questionnaire representing a 69.7% response rate. The population of the study was evenly distributed into three major strata of asset levels but with majority of banks posting assets below three billion. Most of the banks have branch networks that range between 3 branches and 10-40 branches.

Activities of the study included, finding out extent of measurement of service quality, identifying most common measurement techniques used and identifying challenges experienced in measuring service quality. For objective one, it was found that banks have adopted service quality measurement extensively to front office departments that include customer care, cash and forex departments. This indicates that banks value their customer

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The purpose of this chapter is to give a summary of the results that were analyzed in chapter four. Conclusions are drawn up concerning the research objectives that were under study. Recommendations will then be made as to the way forward for banks concerning service quality measurement. These will be areas in which they need to improve on in the measurement of service quality. Limitations encountered during the study will then be looked at. Finally the chapter will end with suggestions being proposed for further study or research.

5.2 Summary

The population of the study was 43 banks. 30 banks responded by completing the questionnaire representing a 69.7% response rate. The population of the study was evenly distributed into three major strata of profit levels but with majority of banks posting profits below three billion. Most of the banks have branch networks that range between 5-10 branches and 10-40 branches.

Objectives of the study included, finding out extent of measurement of service quality, identifying most common measurement techniques used and identifying challenges encountered in measuring service quality. For objective one, it was found that banks have applied service quality measurement extensively to front office departments that include customer care, cash and forex departments. This indicates that banks value their customer

experience. However, these measurement techniques have not been applied as much for support or back office departments. Overall, banks have done relatively well in the measurement of service quality.

Service quality is an important activity to most banks. Secondly service quality measurement has led to increased customer satisfaction. Thirdly, service quality measurement had led to better bank performance. This is due to increased customer satisfaction. Bank employees have not appreciated service quality measurement techniques. This is because service quality measurement has not led to increased job satisfaction. Service quality measurement has also not led to better job process efficiency as a result of reduction of job processes. Banks also do not relate service quality measurement to better strategy formulation.

For objective two, characteristics common to these banks' measurement techniques were compared to most commonly discussed models in service quality literature. Most banks were found to be using not one single model but hybrids of various models. The most popular model that is used is SERVQUAL. This is because of its ease of use and simplicity of measuring and understanding results gotten. The second most popular model used is SERVPERF which is similar to the former. The third most popular model that seems to be used by those banks that use the first two is the Internal Service Quality model that is similar to the SERVQUAL model but is applied to internal customers (staff). The large banks also used IT alignment model that links information technology strategies to general bank operations. The three least commonly used are Evaluated Performance model, Normed Quality model and Attribute Service Quality model.

For objective three, the greatest challenge for commercial banks is to align measurement techniques to the service quality dimensions. The second most challenging issue for the banks is to develop service quality dimensions and link them to the organization's business needs. The third challenging issue for banks is gathering data on the measurement parameters. Banks also find it challenging to identify what particular parameters to measure. Conceptualizing service quality is not a major challenge for the banks. Banks clearly understand what service quality is and what is expected of them. Banks are also in control of their environmental conditions in the service encounter. Another issue that is of little consequence is measurement of service quality interfering with provision of service. Customers are willing to be studied about service quality even as they receive it.

5.3 Conclusion

In conclusion, it is clear that there is a lot of importance attached to service quality measurement. These include increased customer satisfaction, better bank performance, and reduction of work processes. It was noted that banks appreciate service quality and have tried to improve their service quality levels. At the same time, there are areas where banks are performing poorly in relation to service quality measurement. They are not able to translate service quality measurement to better strategy formulation and higher job satisfaction. These are areas that banks should work on and try to improve. Banks should look at challenges to service quality measurement and find ways to overcome them so as to get more out of service quality measurement.

5.4 Recommendations

Banks should adopt service quality measurement techniques for support departments. This will ensure that front office departments will then improve on the quality of their service by reducing response times to customer queries. Secondly, banks should train their employees on the application of service quality measurement techniques. This will lead to increased acceptance by bank staff and they will better be able to execute the techniques. This will also ensure staff members understand what is expected of them by management and will lead to improved service provision. Finally, banks are encouraged to use measurement techniques similar to their direct competitor, which is that organization that competes for the same market segment. This will make benchmarking easier and improve competitiveness.

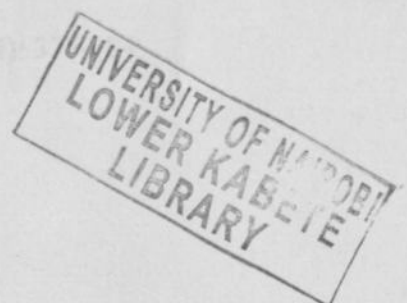
5.5 Limitations of the study

The study encountered several limitations that reduced its effectiveness and accuracy. The first limitation was the lack of cooperation from some respondents. Since this was a census, it was meant to investigate the whole population of 43 banks. However, some of the respondents were not willing to give out information. They considered the study as exposing themselves to their competitors, although they were reassured that the information was purely for research purposes. Secondly, time was another limitation. All of the respondents are bank employees and are therefore very busy. It took some of them very long to complete the questionnaire as they stated that time to complete the document was scarce.

5.5 Suggestions for further study

The area of study is very wide and many questions were left unanswered. It therefore leaves a wide gap of knowledge for further studies to be conducted. Some of the studies that can be conducted on the measurement of service quality in Kenya include study on the relationship between service quality and bank performance. Another study that could also be undertaken is a study on the effect of service quality measurement on strategy formulation of banks.

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Telephone: 255-22575151
Telephone "Message" Number
Fax: 255-22575151

P.O. Box 59884, Nyeri
Nairobi, Kenya

DATE: 1ST SEPTEMBER, 2012

TO WHOM IT MAY CONCERN

The names of the title, Master's Research Student, of Registration Number 1251251251251251 is a Master of Business Administration (MBA) student of the University of Nairobi, Mombasa Campus.

He is required to submit in part of his coursework assignment a research project report. We would like the student to do his project on Service Quality Perceived during Commercial Banks in Kenya. We would, therefore, appreciate if you could help by allowing him to contact you when your organization is the research.

The results of the report will be used solely for academic purposes and a copy of the same will be available to the interested party upon request.

Thank you.

A handwritten signature in black ink, appearing to read "Lawrence Omondi Mwangi".

Lawrence Omondi Mwangi
Administrative Assistant, School of Business, Mombasa Campus



APPENDIX 1: INTRODUCTION LETTER



UNIVERSITY OF NAIROBI
MOMBASA CAMPUS

Telephone: 020-2059161
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsities

P.O. Box 99560, 80107
Mombasa, Kenya

DATE: 6TH SEPTEMBER, 2012

TO WHOM IT MAY CONCERN

The bearer of this letter, Mark Wambugu Ndegwa of Registration Number D61/70912/2008 is a Master of Business Administration (MBA) student of the University of Nairobi, Mombasa Campus.

He is required to submit as part of his coursework assessment a research project report. We would like the student to do his project on *Service Quality Practices Among Commercial Banks in Kenya*. We would, therefore, appreciate if you assist him by allowing him to collect data within your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organization on request.

Thank you.

Zephaniah Ogero Nyagwoka
Administrative Assistant, School of Business-Mombasa Campus



APPENDIX 2: QUESTIONNAIRE

SECTION A

Please answer all questions in this section (tick appropriately)

GENERAL INFORMATION

AREA OF APPLICATION	5	4	3	2	1
1. NAME OF THE BANK					
2. SIZE OF THE BANK (CUSTOMER BASE)					
3. LEVEL OF PROFITABILITY					
Below 1 billion Kshs <input type="checkbox"/>					
1 billion- 3 billion <input type="checkbox"/>					
Above 3 billion <input type="checkbox"/>					
4. BRANCH NETWORK					
1-5 branches <input type="checkbox"/>					
5-10 branches <input type="checkbox"/>					
10-40 branches <input type="checkbox"/>					
Above 40 branches <input type="checkbox"/>					

SECTION B

5. Rate the extent to which service quality measurement and management have been used in the following areas of bank operations. (Use a scale of 1-5, with 1 representing poor application of the model and 5 representing extensive application)

AREA OF APPLICATION	5	4	3	2	1
FRONT OFFICE CUSTOMER CARE					
CASH DEPARTMENT					
FOREX DEPARTMENT					
PROCESSING DEPARTMENT					
IT DEPARTMENT					
LOANS AND ADVANCES DEPT					

6. Rate the following statements according to the following criteria (tick appropriately):

- a. Strongly agree (SA)
- b. Agree (A)
- c. Neither agree or disagree (NAD)
- d. Disagree (D)
- e. Strongly disagree (SD)

STATEMENT	SA	A	NAD	D	SD

Service quality measurement is an important activity to the bank					
The introduction of service quality measurement has led to increased customer satisfaction					
Service quality measurement and management has led to increased staff job satisfaction					
Service quality measurement has led to improved bank performance					
Service quality measurement has led to process efficiency due to reduction of job processes					
Service quality measurement has led to better strategy formulation					
The measurement tool in use in my bank is easy to use					
The measurement tool in use in my bank allows for comparison between periods					

SECTION C

7. The following is a list of a number of characteristics of service quality measurement techniques. Which of them are similar to the techniques used in your organization? (Tick appropriately)

CHARACTERISTIC OF THE TECHNIQUE	
Measures customers expectations of the service to be provided	
Measures customers perceptions of the service they receive	
Compares customer expectations against the company's performance	
Compares customer perceptions of service provided against company's performance	
It divides service into inputs, processes and outputs	
It measures the gap between perceived performance and the ideal amount of the feature	
Measure the gap between excellence norm of an ideal object with the actual quality of the measured object	
Links service quality and information strategies of the bank	
Measures the gap between front office staff expectations and perceptions of support staff performance	
Involves separating various attributes of service into groups	

8. Are there any other characteristics of the measurement techniques used in your bank that have not been listed in the previous question? If so, please list them below

.....

.....

.....

.....

.....

SECTION D

8. Rate the following challenges according to how much they affect the measurement of service quality in your organization (on a scale of 1 to 5 where 1 represents 'NO INFLUENCE' and 5 represents 'VERY MUCH'):

CHALLENGES	1	2	3	4	5
Difficulty in conceptualizing service quality					
Developing service quality dimensions and relating them to business needs					
Aligning the measurement techniques to the service quality dimensions					
Measurement interfering with provision of the service as it goes on					

It is difficult to identify what particular parameters to measure					
There is resistance from participants of the process especially from staff members					
Difficulty in gathering data on the measurement parameters					
Having little control over the environmental conditions in the service encounter					

APPENDIX 3: LIST OF COMMERCIAL BANKS IN KENYA

African Banking Corporation Ltd.

Bank of Africa Kenya Ltd.

Bank of Baroda (K) Ltd.

Bank of India

Barclays Bank of Kenya Ltd.

CFC Stanbic Bank Ltd.

Charterhouse Bank Ltd

Chase Bank (K) Ltd.

Citibank N.A Kenya

Commercial Bank of Africa Ltd

Consolidated Bank of Kenya Ltd.

Co-operative Bank of Kenya Ltd.

Credit Bank Ltd.

Development Bank of Kenya Ltd.

Diamond Trust Bank Kenya Ltd.

Dubai Bank Kenya Ltd.

Ecobank Kenya Ltd

Equatorial Commercial Bank Ltd.

Equity Bank Ltd.

Family Bank Limited

Fidelity Commercial Bank Ltd

Fina Bank Ltd

First community Bank Limited

Giro Commercial Bank Ltd.

Guardian Bank Ltd

Gulf African Bank Limited

Habib Bank A.G Zurich

Habib Bank Ltd.

I & M Bank Ltd

Imperial Bank Ltd

Jamii Bora Bank Limited

Kenya Commercial Bank Ltd

K-Rep Bank Ltd

Middle East Bank (K) Ltd

National Bank of Kenya Ltd

NIC Bank Ltd

Oriental Commercial Bank Ltd

Paramount Universal Bank Ltd

Prime Bank Ltd

Standard Chartered Bank Kenya Ltd

Trans-National Bank Ltd

UBA Kenya Bank Limited

Victoria Commercial Bank Ltd

Housing Finance Corporation