CUSTOMER PERCEPTIONS OFSERVICE QUALITY IN KENYAN COMMERCIAL BANKS

BY

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DECLARATION

This Management Research Proposal is my own original work and has not been presented for a degree in any other university.

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This Management Research Project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this project to my entire family for standing with me throughout this journey.

ABBREVIATIONS

ATMs-Auto Teller Machines

CBK-Central Bank of Kenya

EMP-Empathy

REL-Reliability

RES-Responsiveness

SQ-Service Quality

SPSS- Statistical Package for Social Scientists

TAN-Tangibility

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ABSTRACT

The main objective of the study was to establish customer perceptions of service quality in Kenyan commercial banks. The study was guided by the following research objectives: to determine customer perception on quality of the current services provided by banks and to determine factors that affect perceptions;a) Type of bank b) Gender and Age

To achieve these research objectives the researcher adopted a descriptive research design. It relied on mainly primary data. The population of the study comprised of customers from 9 Kenyan banks, from whom a sample of 90 respondents was picked. Out of these only 80 customers responded. The SERVQUAL instrument was used as the data collection instruments while the collected data was analyzed using SPSS software. The analyzed data was presented and summaries in form of tables. From the findings it was revealed clear that, the overall service quality is low as perceived by consumers in banks and hence no customer satisfaction. Consumers have higher expectations than what they actually receive from banks even though the difference is not wide. In this regard therefore banks have to improve performance on all the dimensions of service quality in order to increase customer satisfaction since consumers expect more than what is been offered by these stores. This will enable them maintain high level of competitiveness. The study also revealed that was a direct negative relationship between the type of the bank and perceptions. The study concludes that indeed there is a difference between customers' expectations and customers' perceptions of the service quality in Kenyan banks. Looking at the individual dimensions the study concludes that customers expect a lot from the banks as such banks have to pay a lot of attention to the quality and the variety of products and services they offer. Regarding reliability and the empathy dimensions the study concludes that customers are very sensitive to how reliable banking services are to them.

The study recommends for more innovations in this line will enhance growth in this sector. It is also important that the financial institutions wanting customers to use and be satisfied with banking technology must implement personalized aspect to the service. Finally banks should pay special attention to convenience by providing the customers with electronic banking service at points which can easily be accessible. For instance, some ATMs should be installed in supermarkets, learning institutions and medical centres. The banks' management should also improve their ATM systems so as to minimize waiting time in the queue. The bank's management should revise their resource allocation in light of Importance/Performance findings.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Problem

The concept of customer perception is built up by customer experiences, how they perceive the service they are offered and ultimately by whether they actually are satisfied with their experiences or not. In order to be successfully today businesses must offer true customer service and service quality (Wilson, Zeithaml, Bitner and Gremler 2008). Eventually, the success of the business is settled by how strongly the image of the store and the products the store is selling meet the customers’ expectations (Porter, Claycomb 1997).

Perception can be said to be the process in which a person selects arranges and interpret Stimuli, these stimuli are then filtered and adjusted to become one’s own view of the world. Even though exposed to the same thing, in the same environment, two persons will never experience the same. (See e.g. Schiffman and Kanuk). We live in a world today where we daily are exposed to millions of different stimuli; different smells, sounds, tastes, sights and textures. Our brain takes in and processes only a small number of all these stimuli (Solomon, Bamossy, Askegaard and Hogg, 2006).

It is only when the customers’ perceptions of the business, the products and the services are known; that you truly know whether or not the business is going in the right direction. All interactions that occur between the customers and the business will ultimately affect the customers’ view and image of the business. More widely speaking customer perception is also the customers’ overall picture of the company, including company image, expectations, external influences, service quality etc. (Solva 2007). Customer service and customers’ perceptions are always important but especially for small businesses. By knowing the customers’ perception, how they perceive service, selection/products, prices, location and cleanliness, customers’ satisfaction and ultimately the success of the business can be affected.

Service quality differs from material goods quality. Bateson and Hoffman (1999*)* defined services as deeds, efforts or performance whilst Regan (1963*)* saw services as activities, benefits or satisfactions offered for sale or provided in connection with the sale of goods. E-service is deeds, efforts or performances whose delivery is mediated by information technology (including the Web, information kiosks and mobile devices). Such eservice includes the service element of e-retailing, customer support and service, and service delivery (Zhang and Prybutok, 2005). Changes in the banking industry such as those resulting from deregulation, rapid global networking, and the rise in personal wealth have thus made the implementation of sophisticated delivery systems (e.g. online and telephone banking, remote site automated teller machines, etc.) a strategic necessity in many cases (Lewis et al., 1994).

In service industries, the subject of service quality remains a critical one as businesses strive to maintain a comparative advantage in the market place. Financial service providers, particularlybanks compete in the marketplace with generally undifferentiated products, and service quality becomes a primary competitive weapon. Banks that excel in quality service have distinct marketing edge since improved levels of service quality are related to higher revenues, increased cross-sell ratios and higher customer retention and expanded market share (Bowen and hedges, 1993), Moreover, the banks understand that customers will be loyal if they can produce greater value than competitors (Dawes and Swailes, 1999). In addition, higher profits will be earned by the banks if they can position themselves better than their competitors within a specific market (Davies et al., 1995). Therefore banks should focus on service quality as a core competitive strategy (chaoprasert and Elsey, 2004). Within this background, customer satisfaction and service quality are competing for the attention of all banking institutions around the world and Kenya is not an exception.

Over the last few years, the Banking sector in Kenya has continued to growth in assets, deposits, profitability and products offering. The Kenyan banking Sector continued on a growth trajectory with the size of assets standing at Ksh. 2.2 trillion, loans & advances worth Ksh. 1.3 trillion , while the deposit base was Ksh. 1.7 trillion and profit before tax of Ksh.53.2 billion as at 30th

June 2012. During the same period, the number of bank customer deposit and loan accounts stood at 14,893,628 and 2,051,658 respectively (CBK, 2013)

The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in the East African community region. Automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products.

Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. Banks have emerged and continued to grow since the 1970s, with the main mission of achieving economic and social development through providing financial products and services in accordance with the guidelines. Banks face direct and stiff competition and one of the avenues they are using to compete is in the service improvement.

1.1.1 Banking Sector in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

As at December 2008 there were forty three banking and non-bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus.There are 43 Commercial Banks in Kenya Licensed under the Banking Act. (Source: http://www.pwc.com.ke)There are six large banks which control 53.7 per cent of the industry, 15 mid-tier lenders and 22 small sized banks whose combined market share of 9.46 per cent. CBK has been encouraging small banks to merge so as to strengthen their capital base. A bank's market share is determined by the size of its total assets, loan accounts, deposit base, and total capital. Mid-tier banks are those with a market share below five per cent but larger than one per cent, while those with less than a percentage are classified as small banks. (Business daily Monday, June 10, 2013)

The Bank capital to assets ratio (%) in Kenya was last reported at 12.80 in 2011, according to a World Bank 2012. Bank capital to assets is the ratio of bank capital and reserves to total assets. Capital and reserves include funds contributed by owners, retained earnings, general and special reserves, provisions, and valuation adjustments. Capital includes tier 1 capital (paid-up shares and common stock), which is a common feature in all countries' banking systems, and total regulatory capital, which includes several specified types of subordinated debt instruments that need not be repaid if the funds are required to maintain minimum capital levels (these comprise tier 2 and tier 3 capital). Total assets include all nonfinancial and financial assets. (Source: http://www.tradingeconomics.com/kenya/bank-capital-to-assets-ratio-percent-wb-data**.).**The dominance of a few banks may have an effect on customer's perception of quality**.**

The banking industry has already been depicted (e.g. in Parasuman et al., 2001) as exhibiting little market orientation and fulfilling services with little regard to customer needs as well as including branches dissimilar in efficiency. Long lines, limited time for customer servicing, transaction errors, excessive bureaucracy, Security and network failures have been said to be the most frequent problems using banking services. This highly lower customer's perception on the quality of service offered and hence reduces the bank's profitability and credibility. A concept which is very closely related with the demand for banking service and loyalty is perceived quality, and the differences between these have not always been very clearly defined. They have been used on occasion in an indistinct manner. In an attempt to clarify the distinction between satisfaction and perceived quality, Anderson and Sullivan, (1993) consider that satisfaction require previous consumption experience and depends on price, whereas quality can be perceived without previous consumption experience and does not normally depend on price. However in circumstances where there is little available information or where quality evaluation is difficult, price can be an indicator of quality.

1.2 Statement of the Problem

Service quality (SQ) is generally perceived to be a tool that could create a competitive advantage forbanking service providers. Moreover, service quality is consistently viewed in the literature as a unique construct of customer satisfaction. It is the customer's satisfaction that influences the success and performance of a company. Therefore, it is very important to assess the customers' perception of service quality and the degree of satisfaction with different services and products provided by banks. In this respect, important questions may be raised. For example, what are the factors that motivate customers to bank with their preferred banks and to what extent are customers satisfied with the financial products and services offered by banks in an a country where different tiers of banks exist. How do they perceive quality of the products and services? Does this perception tally with provider's perception?

A number of studies have been done on service quality delivery in the banking industry. These include relative importance of technology in service delivery in banking (Adrienne et al., 2003) which concluded that technology provides a different type of value and the benefits to be gained are largely efficiency based. Mugambi (2006) also attest that researches have been done on areas of service excellence and customer satisfaction in the banking industry. However, there is no study in Kenya that had looked at the perception of customers and service quality in the Kenyan Banking industry.This study deviates from the studies by focusing on perception of quality an abstract issue but equally important.

1.3 Research Questions

To attain the objectives of the study, key questions will be answered. The answers to these questions will provide light to the problem and will open new perspectives or support to existing perspectives in customer satisfaction. The research questions are:

1. What is the customer perception of quality in Kenya's banking sector?
2. How is Perception influenced by type of bank, gender and Age?

1.4 Research Objectives

The research objectives will attempt to;

1. To determine customer perception on quality of the current services provided by banks.
2. To determine factors that affect perceptions;
    a) Type of bank (tier I, II, III)
    b) Gender and Age

1.5 Value of the Study

Service quality has attracted major attention from marketers and academic researchers over recent years, mainly due to its significant role in business performance and the maintenance of customer loyalty. With the recent growth in the service sector, banking included, it is essential for service providers to understand the customers' view of the quality of service offered. Only then, can providers effectively optimize their returns from the service and stay ahead of their competitors. Furthermore, the study might encounter new issues that deserve to be investigated in future studies. Finally, the findings of the study can be reviewed and used for comparison in future studies about customer Perception on quality. Thus, this study will be beneficial to Banking companies, Regulators and market/ consumer researchers. The study can be used as a source of reference for academics who disseminate knowledge about consumer when teaching their courses about the subject. Other researchers will also use this study to identify gaps that exist in the area of service quality and consumer behavior hence found more researches that are linked to this study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is focused on a discussion of the literary works of various scholars that are found to be related to the topic and are considered to be helpful in addressing the research questions. The literature will be reviewed to identify the loopholes in the existing literature that can be addressed during the course of the research, majorly, using the results from the primary research and addressing the problems. Furthermore the loopholes identified during the literature review will also be highlighted in the last chapter that would help other researchers to select the topics for their research.

2.2 Customer Perceptions

In everyday activities consumers are always faced with a number of purchase decisions. Studies show that the consumer decision-making process comprises a number of stages, namely need recognition, search for information, evaluation of alternative options that could meet the consumer's expressed need, purchase and post-purchase evaluation (Rousseau, 2007).

The decision-making process as a whole, as well as each stage in the process, is therefore greatly influenced by a number of external influences such as the family, culture and reference group as well as internal influences (for example perception, motivation and personality) (Hawkins &Mothersbaugh, 2010).

A study by Hawkins and Mothersbaugh (2010) revealed that perception begins with consumers' exposure and attention to marketing stimuli and then ends with their interpretation of the stimuli. Etzel, Walker and Stanton on the other hand add that consumers' perception is not only determined by the characteristics of the stimuli, but as well the characteristics of the consumer him or herself. It is therefore important for that marketers obtain a thorough understanding of their target markets as well as how consumers will perceive various marketing-related stimuli. For example, Etzel *et al.* (2007) argues that the four elements of the marketing mix, namely product, place, distribution and promotion, are likely to influence consumers' perceptions of the business, and therefore their selection.

Manning and Reece (2007 also argues that customers will perceive the product's value on the basis of its benefits which, in turn, is greatly influenced by the product's performance, features, quality, warranties, packaging as well as labeling.

2.3 Service Quality

Service quality is a concept that has aroused considerable interest and debate in the research literature because of the difficulties in both defining it and measuring it with no overall consensus emerging on either (Wisniewski, 2001). There are a number of different "definitions" as to what is meant by service quality. One that is commonly used defines service quality as the extent to which a service meets customers' needs or expectations (Lewis and Mitchell, 1990; Dotchin and Oakland, 1994a; Asubonteng et al., 1996; Wisniewski and Donnelly, 1996). Service quality can thus be defined as the difference between customer expectations of service and perceived service. If expectations are greater than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction occurs (Parasuraman et al., 1985; Lewis and Mitchell, 1990).

According to Reid (2000), service quality is the single most effective and sustainable means of differentiation between competing companies. Quality is an important factor used by customers to evaluate the services of one organization in comparison to the offerings of other organizations. Service quality has been used as a viable strategy for marketers endeavoring to differentiate service offerings, establish customer value and ultimately satisfy consumer needs.

Swan and Combs (1976) and Gronroos (1984) identified technical and functional quality as being two principle components of quality. Technical quality refers to the relatively quantifiable aspects of a service, which consumers receive in their interaction with a service firm while functional quality is concerned with how technical quality is delivered to them.

2.3.1 The Five Service Quality Dimensions

Every company owner wants to get loyal customers which add to repeating purchases and of cause increasing their maximum revenue. But to get there they need to know about the 5 Service Quality Each of the 5 Service Quality Dimensions makes an extra addition to the level and quality of service which the company offers their customers. It also makes the service far more unique and satisfying. Zeithaml et al (1990) identified five criteria used by consumers in evaluating service quality:

The tangible Service Quality Dimension refers to the appearance of the physical surroundings and facilities, equipment, personnel and the way of communication. In other words, the tangible dimension is about creating first hand impressions. A company should want all their customers to get a unique positive and never forgetting first hand impression, this would make them more likely to return in the future. Ananth et al. (2011) referred to tangibility in their study of private sector banks as modern looking equipment, physical facility, employees are well dressed and materials are visually appealing.

The reliability Service Quality Dimension refers to how the company are performing and completing their promised service, quality and accuracy within the given set requirements between the company and the customer. Reliability is just as important as a good first hand impression, because every customer wants to know if their supplier is reliable and fulfill the set requirements with satisfaction. According to (Yang et al., 2004).Reliability consists of accurate order fulfillment; accurate record; accurate quote; accurate in billing; accurate calculation of commissions; keep services promise. He also mentioned that reliability is the most important factor in banking services.

The responsiveness Service Quality Dimension refers to the willingness of the company to help its customers in providing them with a good, quality and fast service. This is also a very important dimension, because every customer feels more valued if they get the best possible quality in the service. It is also involves understanding needs and wants of the customers, convenient operating hours, individual attention given by the staff, attention to problems and customers safety in their transaction (Kumar et al., 2009).

The assurance Service Quality Dimension refers to the company's employees. Are the employees skilled workers which are able to gain the trust and confidence of the customers? If the customers are not comfortable with the employees, there are a rather large chance that the customers will not return to do further business with the company. According to Sadek et al. (2010), in British banks assurance means the polite and friendly staff, provision of financial advice, interior comfort, eases of access to account information and knowledgeable and experienced management team.

The empathy Service Quality Dimension refers to how the company cares and gives individualized attention to their customers, to make the customers feeling extra valued and special. The fifth dimension are actually combining the second, third and fourth dimension to a higher level, even though the really cannot be compared as individuals. If the customers feel they get individualized and quality attention there is a very big chance that they will return to the company and do business there again. Ananth et al. (2011) referred to empathy in their study on private sector banks as giving individual attention; convenient operating hours; giving personal attention; best interest in heart and understand customers' specific needs.

2.3.2 The SERVQUAL Model

The instrument that has become most prominent in attempting to operationalize service quality is the gap model of service or SERVQUAL (van der Wal et al., 2002; Wisniewski, 2001). Parasuraman et al. (1985) developed a conceptual framework for the SERVQUAL model to measure consumer perceptions of service quality. SERVQUAL assumes that service quality is critically determined by the disparity between the expectations and perceptions of the customer,
And the service actually delivered (Curry and Sinclair, 2002; Ninichuck, 2001).

SERVQUAL is based on the underlying premise that service quality can be defined as the extent to which a service meets a customer's needs or expectations. Thus, service quality can be operationally defined as the difference between customer expectations of service and perceptions of actual service delivery (Wisniewski, 2001).

There are seven major gaps in the service quality concept, which are shown in Figure 1. The model is an extension of Parasuraman et al. (1985). According to the following explanation (ASI Quality Systems, 1992; Curry, 1999; Luk and Layton, 2002), the three important gaps, which are more associated with the external customers, are Gap1, Gap5 and Gap6; since they have a direct relationship with customers.

Gap1: ***Customers' expectations versus management perceptions:*** as a result of the lack of a marketing research orientation, inadequate upward communication and too many layers of management.

Gap2: Management perceptions versus service specifications: as a result of inadequate commitment to service quality, a perception of unfeasibility, inadequate task standardization and an absence of goal setting.

Gap3: ***Service specifications versus service delivery:*** as a result of role ambiguity and conflict,
Poor employee-job fit and poor technology-job fit, inappropriate supervisory control systems, lack of perceived control and lack of teamwork.

Gap4: **Service delivery versus external communication:** as a result of inadequate horizontal communications and propensity to over-promise.

Gap5: ***The discrepancy between customer expectations and their perceptions of the service Delivered***: as a result of the influences exerted from the customer side and the shortfalls (gaps) on the part of the service provider. In this case, customer expectations are influenced by the extent of personal needs, word of mouth recommendation and past service experiences.

Gap6: ***The discrepancy between customer expectations and employees' perceptions:*** as a result of the differences in the understanding of customer expectations by front-line service providers.

Gap7: ***The discrepancy between employee's perceptions and management perceptions:*** as a result of the differences in the understanding of customer expectations between managers and service providers.

SERVQUAL Model

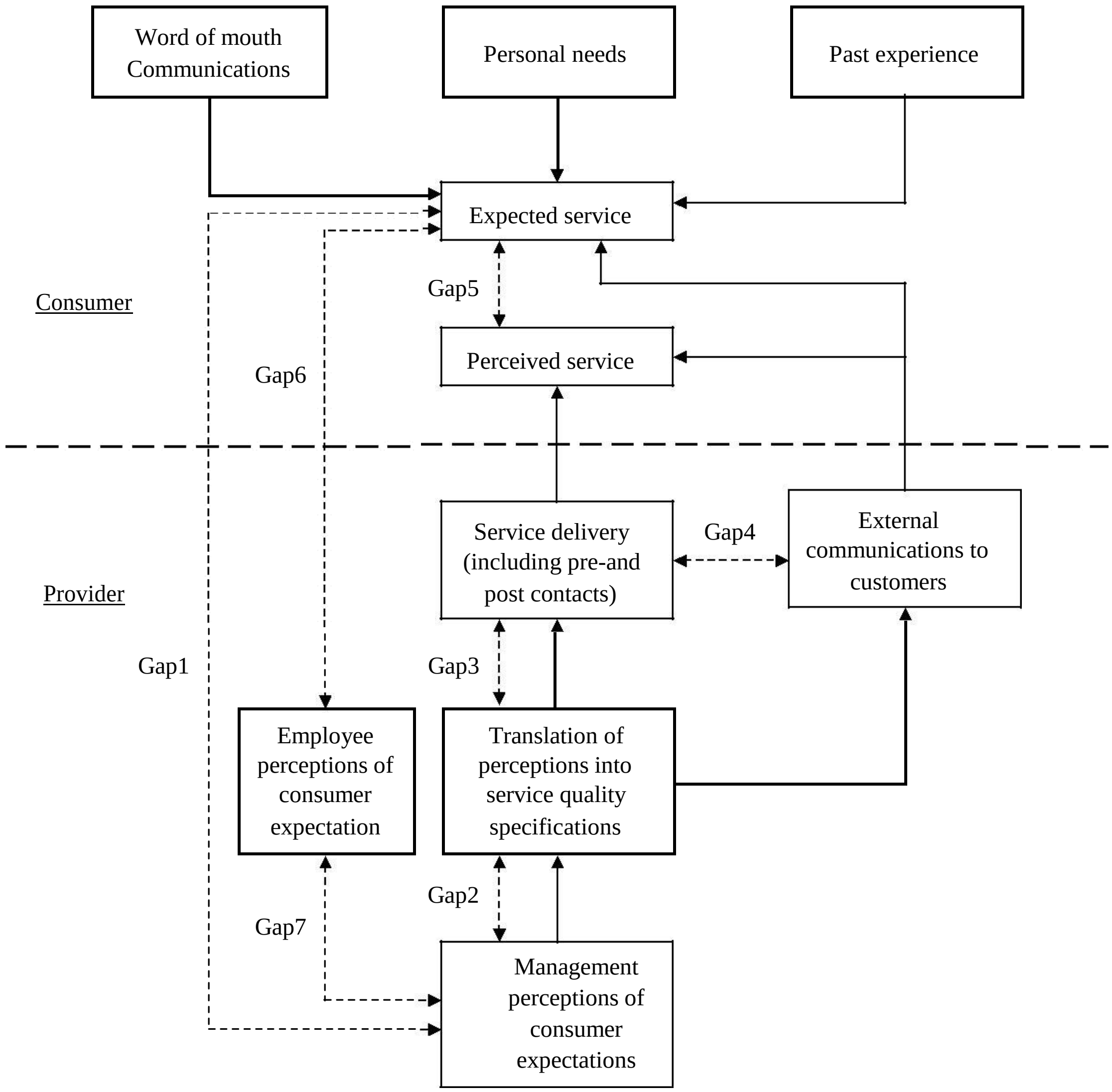

Figure 1: Model of service quality gaps (Parasuraman et al., 1985; Curry, 1999; Luk and Layton, 2002)

According to Brown and Bond (1995), "the gap model is one of the best received and most heuristically valuable contributions to the services literature". The model identifies seven key Discrepancies or gaps relating to managerial perceptions of service quality, and tasks associated with service delivery to customers. The first six gaps (Gap 1, Gap 2, Gap 3, Gap 4, Gap 6 and Gap 7) are identified as functions of the way in which service is delivered, whereas Gap 5 pertains to the customer and as such is considered to be the true measure of service quality. The fifth Gap-the difference between customers' perceptions of what a service should deliver and how well that service meets idealized expectations is the conceptual basis for SERVQUAL.

2.4The financial Sector and Service Quality

Over the past few years, the service sector has become the dominant element in many economies Customer service has become a distinct component of both product and service sectors and with the developments in information technology many business find demanding and knowledgeable customers. The worldwide trend toward service quality was initiated in the 1880s when businesses realized that a quality product, in itself, is not guaranteed to maintain competitive advantage (van der Wal et al., 2002). Many researchers recognize that service quality can bring an organization a lasting competitive advantage (Moore, 1987; Lewis, 1989). Quality of services can be the difference between success and failure in both service and manufacturing firms. Service quality, customer satisfaction and customer value have become the main concern of both manufacturing and service organizations in the increasingly intensified competition for customers in today's customer-centered era (Wang et al., 2004). As a result, many organizations are paying increasing attention to improve service quality. Service quality improvements will lead to customer satisfaction and cost management that result in improved profits (Stevenson, 2002).

2.5 Relationship between Customer Perception and Service Quality

Quality in service is very important especially for the growth and development of financialsector business enterprises (Powell, 1995). It works as an antecedent of customer satisfaction. With the increase of the importance of financial sector in the economies, the measurement of service quality became important. ISO standards are one of the measurement tools of service quality, where quality is defined as the totality of features and characteristics of a product, process or service.

Research has indicated that service quality has been increasingly recognized as a critical factor in the success of any business (Parasuraman et al, 1988) and the banking sector in this case is not exceptional .Service quality has been widely used to evaluate the performance of banking services. The banks understand that customers will be loyal if they receive greater value than from competitors (Daves and Swailes, 1999) and on other hand, banks can earn high profits if they are able to position themselves better than competitors within a specific market (Davies et al, 1995). Therefore banks need focus on service quality as a core competitive strategy (Chaoprasert and Elsey, 2004). Moreover, bank all over the world offer similar kinds of services, and try to quickly match their competitors' innovations. It can be noted that customers can perceive differences in the quality of service (Chaoprasert and Elsey, 2004). Moreover, customers evaluate banks' performance mainly on the basis of their personal contact and interaction (Gronroos, 1990).

The banking sector in developing countries for the last two decades (1990 – 2011) has been the subject of several regulatory changes resulting in increased competition among the banks (AnabilaandAwunyo-Vitor, 2013; Sureshchander et al., 2003). Indeed, prior to the 1980s, the banking system in developingcountries was largely dominated by state owned banks (Yavas et al., 1997). Some of the changes in consumer banking that have taken place in developing economies in the past decades including, inter alia, the economic crisis in the 1990s; credit crunch that started in late 2000s; cross border bank mergers; the change in banks operating hours; the introduction of telephone banking; rapid growth of internet banking; and the growth of spending power of the customers. (Munusamy et. al (2010) and banking (Ross 1999) branch networks being enabled by Automated Teller Machines (ATMs).

Global competition has compelled banks in developing countries to consider the trade-off between attracting new customers and keeping old ones. As a result, the focus of marketing has shifted to managing relationships with customers. The liberalization of economies of developing countries have also resulted in the movement of foreign banks to developing countries which according to Njanike (2008) could be attributed to push factors like low profits and regulatory restrictions in the home country. The stiff competition in the banking industry is further deepened by the entry of private sector banks (Sureshchander et al, 2002). Despite the stiff competition that private and foreignbanks provide, Panigraphy (2000) reports that they have also played a key role in providing greater benefits and new services options to customers. These banks generally have state–of-the art facilities and better service deliverysystems and have therefore posed a real threat to public sector organization including government owned banks (Nerurkar, 2000). Such organizations have therefore been compelled to adopt a more technology

market-oriented approach to improve their service delivery and aid in winning and retaining customers.
As indicated by Rawani and Gupta (2000), innovative technology – based services such as ATM, electronic transfer, smart cards, Internet banking are no longer new concepts to customers in developing countries. However, the diffusion of technology in developing economics has relatively been slow especially for public sector banks and raises the possibleimplication of how they are faring with regards to service delivery and quality issues Kumar et al (2011

According to (African Banking Industry Customer satisfaction Survey April 2013 KPMG) amidst the global economic crisis, several African economies have continued to record significant economic growth driven by rising commodity prices and strong domestic demand. In the same vein, the financial services industry is continuing to experience huge growth as governments and regulators strive to meet financial inclusion targets. The banking sector in particular has benefited from the rapid penetration of mobile technology in recent years across the continent – a very good example being the success of mobile payments in Kenya. Such technological advancements are not just shaping how people interact with one another; they are also changing the behavior and expectation of bank customers who are increasingly becoming used to the immediacy offered by technology. We have also seen the influx of international players and pan-African expansion of African banks in different markets, a sign of the ongoing liberalization of many economies around the continent. As such, the banking industry is becoming even more competitive and this can only benefit the customer as banks strive to meet their demands through the development of various service initiatives to win their loyalty. However, in the race to maximize market share, and ultimately shareholder value, it becomes imperative for banks to keep the voice of the customer at the forefront of their strategies. Thus, the role of satisfied and loyal customers in attaining profitability cannot be overemphasized.Hence the focus of the study.

2.5.1 Kenya's banking sector and service quality

Kenya's financial system is by far the largest and most developed in East Africa and its stability has improved significantly over the past years. Many challenges remain by African standards and in comparison with other East African economies, Kenya's banking sector has for many years been credited for its size and diversification Unlike most other countries in the region, Kenya has a variety of financial institutions and markets – Banks, Insurance Companies, Stock and Bond markets - that provide an array of financial products. In recent years, Kenya has made substantial progress in improving the stability andefficiency of its Banking system Kenya's financial system, however, continues to face challenges. The banking system is still fragmented, with many smallbanks serving specific niches, but not contributing to competition in the sector.

Kenyan banks have realized tremendous growth in the last five years and have expanded to the East African region. This growth was mostly due to loan write-offs and recapitalization of government-owned banks, has mostly well capitalized and liquid banks and, overall, the system is resilient to shocks. Interest rate spreads have decreased over the past years, a phenomenon mostly accounted for by foreign banks and the reduction in overhead costs they experienced.
The Kenya banking system is supervised by the Central Bank of Kenya (CBK) As of late July 2004, the system consisted of 43 commercial banks (down from 48 in 2001), several non-bank financial institutions, including mortgage companies, four savings and loan associations, and several score foreign-exchange bureaus. The banking industry in Kenya has also involved itself in automation, moving from the traditional banking to better meet the growing complex needs of their customer and globalization challenges. There has been increased competition from local banks as well as international banks; some of which are new players in the country. This has served the Kenyan economy well as the customers and shareholder are the ones who benefited the most (Banking on Kenya.com)

The banking Industry in Kenya has become very competitive due to many players, and also due to liberalization of economy and technologicaladvancements. Banks have responded to these challenges by introducing innovativeproduct and services such as the mobile phone money transfer, ATM machines, Internet Banking and Agency banking among others. It is important for banks to understand how customers perceive these services and products because perception is a determinant of buyer choice and banks growth potential.

Competition within the banking sector in Kenya is very stiff due to the number of players in the industry (Mwongela, 2007). This has resulted from CBK's encouraging the non-bank financial institutions to convert to commercial banks and more companies entering the banking Industry. Competition has been enhanced by other non financial institutions like Safaricom through its M-Pesa service which is offering financial services of money transfers which were traditionally offered by banks. Most banks in Kenya have modern equipment such as Automated Teller Machines and online services where all theirbranches are interconnected and they offer almost the same products. The only aspect thatcan differentiate the banks is customer service and what matters is how the service isdelivered because only good service will attract and retain customers (Kandie, 2002).

2.6 Summary of Literature Review

The globalization of financial markets has led to stiffer competition of the local banks for market share, from foreign owned banks. Competition squeezes profits while interest rate volatility has led to an unstable investment environment, which has resulted in irregular returns and consequently higher risk (Mwongela, 2007).

The Banking Industry is consequently put into lot of pressures due towards increase in global competition. Different strategies are formulated to retain the customer and the key of it is to increase the service quality level. Typically, customers perceive very little difference in the banking products offered by private banks dealing in services as any new offering is quickly matched by competitors. Parasuraman et. al (1985) and Zeithaml et., al (1990) noted that the key strategy for the success and survival of any business institution is the deliverance of quality services to customers.

Banks in Kenya will need to focus on maintaining their financial stability while simultaneously sharpening their customer service capabilities if they hope to capture and grow their markets since the industry plays an important role part in Kenya's economy the need for establishing the perceived service quality is paramount. Quality entails meeting customer expectation and perception and to close any gaps between the two. Providing quality service makes customers loyal and makes the firm profitable over time. Service firms therefore need to develop competitive strategies for achieving service quality. This study will contribute to this Endeavour.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research was descriptive in nature and was aimed at evaluating customer perceptions on service quality in Kenyan banks. The study looked at the dimensions of service quality from the consumer's perspective through assessing their expectations and perceptions of service quality. According to Cooper and Schindler (2003), such a study that is concerned with finding out what, where and how of a phenomenon is a descriptive study, which is the concerned of this study.

3.2 Population

The population of interest included all the different Tiers of Banks in Nairobi. According to Central Bank of Kenya report as at December 2008 there were 43 Banks in Kenya. And therefore, a census study was carried out due to the relatively small size of the population.

3.3 Sampling Design

Multistage sampling was used in data collection; here a sample size of 90 banking customers was included in the study. Out of the 43 Commercial banks in Kenya, 9 banks were randomly selected in different Tiers and used to identify those to be studied. Categories of Tier's were selected according to assets and profits in monetary value. Whereby Tier I has Assets over 25 Billion Kenya shillings, Tier II Assets are of between 6-24.9 Billion Kenya Shillings and Tier III Assets are below 6 Billion Kenya Shillings.

The banks selected were; Tier I; Kenya Commercial Bank, Equity Bank, Barclays Bank, Tier II; Family Bank, Eco Bank, Chase Bank Tier III; Credit Bank, Gulf Bank and Consolidated Bank. In each of the 9 banks, 10 banking customers were selected randomly.

3.4 Data Collection Methods

This study made use of primary data which was collected using questionnaires that contained both open and close ended questions. An undisguised structured questionnaire, SERVQUAL by (Parusuraman, et al 1985), was adopted for the research.

A "drop-and-pick-later" method was used and in some cases, personal interviews were conducted. Questionnaires were given to customers of the different Tiers of Banks. The Questionnaires were pre-tested to find out its appropriateness and workability. McNabb (2008) recognizes a questionnaire as the best tool for collecting data in a descriptive design and when accessibility to the respondents is challenging. He also notes that questionnaires are cheap and can collect large information within shorter time. The questionnaire were developed and organized on the basis of the research questions. The mode of delivery of the questionnaires was on one delivery to the respondents depending on the respondent's preference. The questionnaire was divided into two parts as follows:

Part A consisted of close-ended questions aimed at obtaining general information on the Customer. Part B contained likert type of questions on the Perception of Service Quality. The study also adopted the SERVQUAL Model.

Since banks are a security controlled area, the researcher sought permission for conducting the study on the bank's premises or on its customers. This was of course accompanied with a brief introduction of the aim of the study and its significance. Confidentiality to the bank's authority was also confirmed. The researcher identified the respondents with the help of the branch's management whom the researcher sampled and called them to introduce the study and request their participation in the study. A questionnaire was then delivered and collected back through the right method. To other respondents whom the researcher identified accidentally, the researcher with the help of the bank on locating a customer who meets the researcher's purpose approached them (customers) introduced the research study to them and sought to deliver a questionnaire to the respondent. Questionnaire were thereafter collected after completion and taken for analysis.

3.5 Data Analysis Techniques

The data collected was organized, tabulated and analyzed using descriptive statistics in terms of percentages, mean, median and mode and presented in form of charts and graphs to elicit the findings in light of the research questions. The percentages were used to signify the variation between the various variables. The mean was used to show the magnitude of contributing factors as well as differentiate between the impacts of service quality.

Inferential analysis was used to draw conclusions about the population and to draw conclusions concerning the relationships and the differences that will be found in the research result. The statistical package for social scientists (SPSS) computer program version 18 for windows was used to assist in data analysis. Under this technique, the data collected will first be checked for completeness, coded, and then analyzed to obtain descriptive statistics and the data was presented through the frequency tables and figures. Thus analysis of data was important in explaining the variables of study.

CHAPTER FOUR

RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results and findings of the study in line with the research objectives, which were: to determine customer perception on quality of the current services provided by banks and to determine factors that affect perceptions. The initial section covers the background information with respect to the respondent as well as the company background. The target population was ninety (90) customers from 9 selected banks in Kenya. A total of 80 customers responded, which is equivalent to 89 percent response rate.

4.2 Background Information

This section provides the background information with regards to the respondents' age, gender, level of education, marital status, and type of account. These aspects were put into consideration because of the meaningful contribution they offer to the study as the variables help in the provision of the logic behind the responses given by the respective respondents.

4.2.1 Gender of the Respondents

Table 4.1 provides a summary of the respondents who were engaged in the survey on the basis of their gender.

Table 4.1: Gender of the Respondents

Gender of the Respondents	**DISTRIBUTION**	
	Frequency	**Percentage**
Male	38	48
Female	42	52
Total	**80**	**100**

Source: Survey Data, 2013

The results of the study show that indeed 48 percent of the total respondents were of the male gender, while the remaining 52 percent were of the female gender. This shows that indeed most banking customers are of the female gender. It was expected that majority of the banking customer were female, give that they are the ones who frequent the banking halls seeking financial services, especially, given that most women have joined women groups that offer financial assistance to women. Additionally most women visit banking halls to make payments for their children's school fees, as well as other household bills. It is expected therefore that the perception on service quality will be largely influenced by the gender of the respondents.

4.2.2 Marital Status

Table 4.2 provides a summary of the respondents who were engaged in the survey on the basis of their marital status.

Table 4.2: Marital Status

Marital Status	**DISTRIBUTION**	
	Frequency	**Percent**
Single	32	40
Married	35	44
Divorced	13	16
Total	**80**	**100**

Source: Survey Data, 2013

As shown, majority of the respondents were married (44%), followed by those who were single at 40 percent and finally the divorced were 16 percent respectively. This findings show that indeed the married population in Kenya exceeds those who are single. It is expected that the expectations of the respondents with regards to service quality will likely vary.

4.2.3 Age of the Respondents

Table 4.3 provides the results of the respondents with regards to their age.

Table 4.3: Age of the Respondents

Age of the Respondents	**DISTRIBUTION**	
	Frequency	**Percent**
Below 20 years	**4**	**5**
21-30 years	**32**	**40**
31-40 years	**27**	**34**
41-50 years	**13**	**16**
51-60 Years	**4**	**5**
Total	**80**	**100**

Source: Survey Data, 2013

The study findings show that indeed the majority of the respondents (74 percent) were below the age of 31 years. Specifically 5 percent of the respondents were below 20 years, 40 percent were aged between, 21-30 years, 34 percent of the respondents between 31-40 years, 16 percent of the respondents between 41-50 years and the remaining 5 percent of the respondents were between 51-60 years. It was expected that majority of the banking customers are fairly young, given that they are the backbone of the country's economy. Additionally it is expected that majority the working population is below the age of 50 years and therefore the reason for such results.

4.2.4 Level of Education

Table 4.4 provides a summary of the level of education of the respondents.

Table 4.4 Level of Education

Level of Education	**Distribution**	
	Frequency	**Percent**
Secondary	1	2
College	25	45
University Degree	25	45
Master's Degree	3	6
Other	1	2
Total	**80**	**100.0**

Source: Survey Data, 2013

According to the study most of the respondents had high level of education qualification. Specifically 45 percent had college qualification, and university degree qualifications respectively. Only 2 percent of the respondents were secondary school graduates while 6 percent of the respondents had master's degree. The remaining 2 percent of the respondents had other qualifications. This broad category of respondents included certificate holders including computer studies, industrial training, accountancy holders, just to name but a few. It was expected that majority of the banked population have the ability to read and write.

4.3 Reliability Coefficient

Table 4.5 presents a summary of the findings with regards to reliability coefficient (Cronbach's alphas).

Table 4.5: Reliability Coefficient (Cronbach's alphas)

Dimension Number of	**Items**	**Cronbach alpha for dimensions**	**Cronbach alpha if item deleted**	**items**
Tangibles	4	0.733	0.728	TAN 1
			0.689	TAN 2
			0.667	TAN 3
			0.598	TAN 4
Reliability	4	0.801	0.789	REL 1
			0.712	REL 2
			0.734	REL 3
			0.771	REL 4
Responsiveness	4	0.678	0.661	RES 1
			0.604	RES 2
			0.597	RES 3
			0.554	RES 4
Empathy	5	0.724	0.711	EMP 1
			0.714	EMP 2
			0.684	EMP 3
			0.681	EMP 4
			0.660	EMP 5

Source: Survey Data, 2013

Where:

TAN=Tangibility, REL=Reliability, RES=Responsiveness, EMP=Empathy

Looking at the reliability coefficients of all four dimensions on table 4.5, responsiveness has a coefficient slightly below 0.7, tangibles (0.678). This could as a result that some items under responsiveness seemed too similar. Other dimensions, reliability, tangible and empathy showed coefficients higher than 0.7, meaning these dimensions comprising of various items show a true measure of service quality. These findings therefore indicate that indeed the objectives on the perception of service quality will be answered by the four dimensions.

4.4 Mean of Customer' Expectations and Gap Scores

Table 4.6, presents a summary of the findings with regards to the mean of customer expectations and gap scores. This will help show clearly, the gap between the expectations and the customer perceptions.

Table 4.6: Mean of Customer' Expectations and Gap Scores

Dimension Number of	**Statement**	**Expectation score**	**Perception Score**	**Gap Score**	**Average**
Tangibles	TAN 1	4.5834	4.2318	-0.3517	-1.3377
	TAN 2	4.6298	3.9801	-0.6497	
	TAN 3	4.4238	4.0126	-0.2113	
	TAN 4	4.6225	4.2253	-0.3972	
Reliability	REL 1	4.2450	1.9732	-2.2712	-1.8294
	REL 2	4.3575	2.9669	-1.3908	
	REL 3	4.6358	3.7550	-1.8808	
	REL 4	4.8278	3.0530	-1.7748	
Responsiveness	RES 1	4.5695	3.4040	-1.1656	-10165
	RES 2	4.9603	4.0199	-0.9404	
	RES 3	4.2914	3.3311	-0.9603	
	RES 4	4.8015	3.8212	-0.9803	
Empathy	EMP 1	4.1258	3.4304	-0.6954	-0.76676
	EMP 2	4.3046	3.6556	-0.6490	
	EMP 3	4.8278	4.0530	-0.7748	
	EMP 4	4.9603	4.0199	-0.8404	
	EMP 5	4.0199	3.1457	-0.8742	

Source: Survey Data, 2013

Where:

TAN=Tangibility, REL=Reliability, RES=Responsiveness, EMP=Empathy

Expectations and perceptions were both measured using the 5-point likert scale whereby the higher numbers indicate higher level of expectation or perception. In general, consumer expectation exceeded the perceived level of service shown by the perception scores. This resulted in a negative gap score (Perception – Expectation).This was as expected given that perception is less than expectation.

The items with the highest expectation score were high banks will insist on error free records (4.8278), Employees of good banks will give prompt service to customers (4.9603), Employees of good banks will never be too busy to respond to customers' requests (4.8015), good banks will have employees who give customers personal attention (4.8278), and good banks will have their customer's best interests at heart (4.9603). This implies that generally, consumers expect very high from banks.

The gap scores are the difference between the perception and expectation scores with a range of values from -4 to +4 and these gap scores measure service quality and hence customer satisfaction. The more perceptions are close to expectations, the higher the perceived level of quality. The largest gaps scores were, When good banks promise to do something by a certain time, they do (-2.2712), and banks will perform the service right the first time (-1.8808). Table 4.7 further presents a summary of the findings with regards to the type of bank and perceived service quality.

Table 4.7: Type of Bank and Service Quality

	TIER 1	**TIER II**	**TIER 111**
Tangibles	**4.2253**	**4.117**	**4.009**
Reliability	**3.009**	**2.197**	**2007**
Responsiveness	**4.157**	**3.705**	**3.332**
Empathy	**4.225**	**3.980**	**3.320**

Source: Survey Data, 2013

As seen in the table the perceived quality of Tier 1 banks is high as compared to the other two tiers in all the four aspects. This is expected given that respondents from high Tier banks expect high service quality given the clientele of such banks as well as the resource endowments of such banks. This therefore answers the second objective on the factors affecting service quality.

Table 4.8: Chi-Square Test

Chi-Square Test			
	Value	**Df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square	5.408105656	3	0.013934920

From the Chi-Square test, it is obvious that the bank type and service quality are statistically significant at statistically significant level of ($P<0.05$). Thus, there is a significant difference between respondents' bank type at 95%confidence level.These findings reveal that indeed there is a relationship between the type of the bank.

Table 4.9: Gender and Service Quality

	MALE	**FEMALE**
Tangibles	**4.2812**	**3.953**
Reliability	**2.691**	**2.117**
Responsiveness	**4.457**	**3.005**
Empathy	**4.113**	**3.570**

Source: Survey Data, 2013

As seen in the table, male customers seem to rate service quality highly as compared to their female counterparts. This can be attributable to illusion that men are never keen enough to monitor, the various elements in the banking service and would therefore not be very keen on the various elements of service quality. This therefore answers the second research objective on the influence of gender on service quality perceptions.

Table 4.10: Chi-Square Test

Chi-Square Test			
	Value	**Df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square	4.23005	3	0.000

The analysis results show that indeed there is a relationship between gender and service quality. This is because the p value is less than 0.05. It means therefore that gender and service quality are statistically significant at statistically significant level of (P<0.05).

Table 4.11: Age and Service Quality

	Below 20 years	**21-30 years**	**31-40 years**	**41-50 years**	**51-60 Years**
Tangibles	**4.350**	**4.1230**	**4.007**	**3.985**	**3.220**
Reliability	**3.057**	**2.866**	**2.765**	**2.002**	**2.110**
Responsiveness	**3.985**	**3.605**	**3.002**	**2.905**	**3.110**
Empathy	**4.110**	**3.977**	**3.285**	**4.065**	**4.233**

Source: Survey Data, 2013

As seen in the table, it is evident that age influences service quality. Majority of the young customers seem to have high expectations.

Table 4.12: Chi-Square Test

Chi-Square Test			
	Value	**Df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square	5.05462	3	0.000

The analysis results show that indeed there is a relationship between age and service quality. This is because the p value is less than 0.05. It means therefore that gender and service quality are statistically significant at statistically significant level of (P<0.05).

4.5 Factor Analysis

In this study, the confirmatory factor analysis was used because the number of dimensions wee already known. This analysis is based on the Common Factor Model, which proposes that each observed response (17 items of SERVQUAL model) is influenced by underlying common factors (factor 1, 2, 3, 4, 5). This factor is defined as the natural affinity of an item for a group. The strength of the link between each factor and each measure varies in that a factor could influence some dimensions more than others. Score below 0.45 indicate a weak loading and are therefore of little or no significance. Factor loadings are the weights and correlations between each variable and the factor. The higher the load, the more important it is in defining the factor's dimensionality. A negative value indicates an inverse impact on the factor.

Table 4.13: Factor Analysis

Item	**Components**			
	1	**2**	**3**	**4**
TAN 1	,823			
TAN 2	,823			
TAN 3	,800			
TAN 4	,754			
REL 1		,654		
REL 2		,568		
REL 3		,787		
REL 4		,534		
RES 1			,678	
RES 2			,671	
RES 3			,555	
RES 4			,589	
EMP 1				,456
EMP 2				,657
EMP 3				,767
EMP 4				,711
EMP 5				,457

Source: Survey Data, 2013

Where:TAN=Tangibility, REL=Reliability, RES=Responsiveness, EMP=Empathy

From table 4.13, it can be realized that items from same dimensions are regrouped under the same factor. This factor analysis proves that SERVQUAL model has been tested to be a good measure of service quality in banks because see similar items fall under the same factor showing that they measure the same thing.

4.6 Gap Score Analysis

The gap score analysis is to enable find out how consumers perceive service quality in banks and try to identify what dimensions of service quality they are satisfied with.

Table 4.14: Gap Score Analysis

	Average gap score for tangibles	**Average gap score for reliability**	**Average gap score for responsiveness**	**Average gap score for empathy**
Mean	-0.5574	-1.5834	-1.2313	-0.3517
Median	-0.4142	-0.6298	-0.4801	-0.6497
Mode	-0.24	-0.20	-0.4	-0.3
Std. Deviation	1.1231	1.0225	1.2253	1.1972
Skewness	-0.144	-4.24	-1.900	-2.2712
Kurtosis	0.2790	0.6828	0.4550	0.4808

As seen in the table Tangibles have an average score of -0.5574 and the median gap is -0.4142. The model score is -0.25. The standard deviation is 1.1231 indicating the spread of gaps away from the mean. The distribution is positively skewed with a skewness of -0.144 which indicates that the figures are deviated more to the right. The kurtosis value is 0.2790 which mean that there is clustering somewhere away from the mean. On Reliability, the mean is -1.5834 which means that customers are not satisfied with the quality of services as depicted by the reliability dimension. The standard deviation is 1.0225 which means that the gaps are spread away from the mean. The modal gap is however different from the mean and it is -0.20 and the median gap is -0.75. The distribution is positively skewed with a value of -0.676 indicating the gaps are deviated to the right of the mean and the gaps are clustered away from the mean with a kurtosis value of 0.6828. Additionally customers were unsatisfied with the level of services offered by banks in Kenya as they have a gap of -1.2313 for this dimension. The median and the mode are higher than the mean with gaps of -0.48 and -0.4 respectively. The standard deviation of the responsibility dimension is 1.18743 which indicates that the gaps are not very widely deviated from the mean. The deviation is to the right with a positive skewness of -1.009. The gaps are also clustered at a point different from the mean of the distribution because the kurtosis value is 0.986.

Table 4.15 further presents a summary of the findings with regards to the overall perceived service quality.

Table 4.15: Descriptive statistics for Overall service quality

	N	**Minimum**	**Maximum**	**Mean**	**S.D**	**Skewness**		**Kurtosis**	
		Statistic	Statistic	statistic	statistic	statistic	Std error	statistic	Std error
Overall Service QualityGAP	80	-3545	0.81	-0.4113	0.8551	-0.7994	0.865	0.7132	0.278
Valid N (Listwise	80								

Source: Survey Data, 2013

As seen in the table all the customers expect more from banks in Kenya than they actually offer. This is evident from the negative mean of -0.4113 showing that expectations exceed perceptions in banks. The standard deviations of the individual dimensions are varying around a common average making them fairly consistent around the four dimensions and this suggests a range of opinions on the service quality among the customer surveyed. Summarily, overall perceived service quality is less than the expectations indicating there is no satisfaction. This could be possibly because of either the under delivering of services to consumers or the over promising of banks to consumers on their services.

4.7 Factors that Affect Perceptions

The study further sought to establish the factors that affect perceptions, specifically with regards to the type of bank as well as gender and age. Table 4.16 presents a summary of the findings with regards to the relationship between type of bank and service quality.

Table 4.16: Relationship between Type of bank and Perceptions

Correlations		Tier 1	Tier 2	Tier 3	Perceptions
Tier 1	Pearson C.	1			
	Sig. (2-tailed)	.624			
	N	80			
Tier 2	Pearson C.	.427	1		
	Sig. (2-tailed)	.357	.391		
	N	80	80		
Tier 3	Pearson C.	.551	.591	1	.633
	Sig. (2-tailed)	.437	.768		.713
	N	80	80		80
Perceptions	Pearson C.	.689	.880	1	
	Sig. (2-tailed)	.266	.827		
	N	80	80	80	

*. Correlation is significant at the 0.05 level (2-tailed).

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

The study shows that there is a direct negative relationship between the type of the bank and perceptions. This therefore shows that the respondents from all the banks involved in the study had perceptions about service quality and were therefore it can interpreted that every banking customers expects high service quality from their bank, in fact customers from bigger banks expect even higher service quality given the nature of their respective banks. This therefore answers the second objective on how the type of bank influences service quality.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter consists of four sections, namely summary, discussion, conclusions, and recommendations following that order. The first section provides a summary of the important elements of the study which includes the study objectives, methodology and the findings. The second section discusses the major findings of the study with regards to the specific objectives. The third section discusses the conclusions based on the specific objectives, while using the findings and results which are obtained in the fourth chapter.

5.2 Summary

The main objective of the study was to establish customer perceptions of service quality in Kenyan commercial banks. The study was guided by the following research objectives: to determine customer perception on quality of the current services provided by banks and to determine factors that affect perceptions;

a) Type of bank (tier I, II, III)

b) Gender and Age

To achieve these research objectives the researcher adopted a descriptive research design. It relied on mainly primary data. The population of the study comprised of customers from 9 Kenyan banks, from whom a sample of 90 respondents was picked. Out of these only 80 customers responded. The SERVQUAL instrument was used as the data collection instruments while the collected data was analyzed using SPSS software. The analyzed data was presented and summaries in form of tables.

From the findings it was revealed clear that, the overall service quality is low as perceived by consumers in banks and hence no customer satisfaction. Consumers have higher expectations than what they actually receive from banks even though the difference is not wide. In this regard therefore banks have to improve performance on allthe dimensions of service quality in order to increase customer satisfaction sinceconsumers expect more than what is been offered by these stores. This will enable themaintain high level of competitiveness.

The study also revealed that was a direct negative relationship between the type of the bank and perceptions. This therefore shows that the respondents from all the banks involved in the study had perceptions about service quality and were therefore it can interpreted that every banking customers expects high service quality from their bank, in fact customers from bigger banks expect even higher service quality given the nature of their respective banks.

5.3 Discussion

From the findings it was revealed clear that, the overall service quality is low as perceived by consumers in banks and hence no customer satisfaction. Consumers have higher expectations than what they actually receive from banks even though the difference is not wide. This findings are in line with research which has indicated that service quality has been increasingly recognized as a critical factor in the success of any business (Parasuraman et al, 1988) and the banking sector in this case is not exceptional .Service quality has been widely used to evaluate the performance of banking services. The banks understand that customers will be loyal if they receive greater value than from competitors (Daves and Swailes, 1999) and on other hand, banks can earn high profits if they are able to position themselves better than competitors within a specific market (Davies et al, 1995). Therefore banks need focus on service quality as a core competitive strategy (Chaoprasert and Elsey, 2004). Moreover, bank all over the world offer similar kinds of services, and try to quickly match their competitors’ innovations. It can be noted that customers can perceive differences in the quality of service (Chaoprasert and Elsey, 2004). Moreover, customers evaluate banks’ performance mainly on the basis of their personal contact and interaction (Gronroos, 1990).

Additionally, the liberalization of economies of developing countries have also resulted in the movement of foreign banks to developing countries which according to Njanike (2008) could be attributed to push factors like low profits and regulatory restrictions in the home country. The stiff competition in the banking industry is further deepened by the entry of private sector banks (Sureshchander et al, 2002). Despite the stiff competition that private and foreign banks provide, Panigraphy (2000) reports that they have also played a key role in providing greater benefits and new services options to customers. These banks generally have state–of-the art facilities and better service delivery systems and have therefore posed a real threat to public sector organization including government owned banks (Nerurkar, 2000). Such organizations have therefore been compelled to adopt a more technology market-oriented approach to improve their service delivery and aid in winning and retaining customers.

The findings also affirm that the globalization of financial markets has led to stiffer competition of the local banks for market share, from foreign owned banks. Competition squeezes profits while interest rate volatility has led to an unstable investment environment, which has resulted in irregular returns and consequently higher risk (Mwongela, 2007).

Similarly the Banking Industry is consequently put into lot of pressures due towards increase in global competition. Different strategies are formulated to retain the customer and the key of it is to increase the service quality level. Typically, customers perceive very little difference in the banking products offered by private banks dealing in services as any new offering is quickly matched by competitors. Parasuramanet. al (1985) and Zeithaml et., al (1990) noted that the key strategy for the success and survival of any business institution is the deliverance of quality services to customers.

Looking at the findings it is evident that banks in Kenya will need to focus on maintaining their financial stability while simultaneously sharpening their customer service capabilities if they hope to capture and grow their markets since the industry plays an important role part in Kenya's economy the need for establishing the perceived service quality is paramount. Quality entails meeting customer expectation and perception and to close any gaps between the two. Providing quality service makes customers loyal and makes the firm profitable over time. Service firms therefore need to develop competitive strategies for achieving service quality. As indicated by Rawaniand Gupta (2000), innovative technology – based services such as ATM, electronic transfer, smart cards, Internet banking are no longer new concepts to customers in developing countries. However, the diffusion of technology in developing economics has relatively been slow especially for public sector banks and raises the possible implication of how they are faring with regards to service delivery and quality issues Kumar et al (2011).

Despite the fact that the banking sector in particular has benefited from the rapid penetration of mobile technology in recent years across the continent – a very good example being the success of mobile payments in Kenya. Such technological advancements are not just shaping how people interact with one another; they are also changing the behavior and expectation of bank customers who are increasingly becoming used to the immediacy offered by technology. We have also seen the influx of international players and pan-African expansion of African banks in different markets, a sign of the ongoing liberalization of many economies around the continent. As such, the banking industry is becoming even more competitive and this can only benefit the customer as banks strive to meet their demands through the development of various service initiatives to win their loyalty. However, in the race to maximize market share, and ultimately shareholder value, it becomes imperative for banks to keep the voice of the customer at the forefront of their strategies. Thus, the role of satisfied and loyal customers in attaining profitability cannot be overemphasized.

5.4 Conclusion

The study concludes that indeed there is a difference between customers' expectations and customers' perceptions of the service quality in Kenyan banks. The study establishes that the respondents' there is a high overall expectation which therefore implies that customers expect a lot from the banks. Looking at the individual dimensions the study concludes that customers expect a lot from the banks as such banks have to pay a lot of attention to the quality and the variety of products and services they offer. Regarding reliability and the empathy dimensions the study concludes that customers are very sensitive to how reliable banking services are to them. This means therefore that Kenyan banks need to put more effort in ensuring that their services are very reliable to their customers.

5.5 Recommendations

The banking industry being a growing sector in Kenya as well as the whole world brings about the need for careful examinations of various ways of making it more competitive and therefore profitable. The researcher believes that more innovations in this line will enhance growth in this sector. It is also important that the financial institutions wanting customers to use and be satisfied with banking technology must implement personalized aspect to the service i.e getting to understand what the customer needs and act as per the demands.

Finally banks should pay special attention to convenience by providing the customers with electronic banking service at points which can easily be accessible. For instance, some ATMs should be installed in supermarkets, learning institutions and medical centres. The banks' management should also improve their ATM systems so as to minimize waiting time in the queue. This will improve the efficiency in the service delivery hence boosts customer confidence. Banks should also provide customers with a toll free number. This could handle customers with complaints and general feedback about the electronic banking services. This would not only provide a service to a customer that is free, but also provide the bank with valuable information for future development on electronic service. The bank's management should revise their resource allocation in light of Importance/Performance findings. Having banking needs included in the option menu, and accurate performance of the transactions lies in the "possible overkill" quadrant, which means that management thinks it is more important than customers do. The banks should provide statements for every transaction that has been conducted electronically. This will enable customers to verify accuracy of all transactions including transaction confirmation

5.6 Limitations

Whereas no effort was spared in ensuring the objective of the study was achieved, the researcher faced some challenges that limited the extent to which the study be done. Time was a key limitation during data collection and analysis. There were cases of travelling constraints as the researcher had relocated outside the country during the study. Other main limitation was during data collection as in some cases the customers were not willing to provide feedback. Also, the study was cross-sectional collecting data at one point of time. A Longitudinal study would be useful in order to compare the customers' responses over a long period of time.

5.7 Suggestions for Further Studies

The researcher conducted a survey in the banking industry in Kenya and recommends that a study should be carried out to determine the parameters of the customer's "zone of zero tolerance". This will enable managers to understand at what point customers cease to be satisfied with core service they are receiving. The researcher also recommends that a study should be carried out to establish the challenges encountered by the customers in the process of using banking in the service delivery.

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APPENDIX 1: QUESTIONNAIRE

SECTION A: GENERAL INFORMATION

(This section requires you to give general information regarding about yourself. please tick [ ] or fill in where appropriate).

1. Name of your Bank……………………………………………………………

2. Gender? Male [ ] Female [ ]

3. Marital Status? Single [ ] Married [ ] Divorced [ ]

4. Age Group? Below 20 years [ ] 21-30 [ ] 31-40 [ ] 41-50[ ] 51-60 [ ]

5. Level of Education? Secondary [ ] College [ ] University Degree[ ] Masters Degree [ ]

6. Type of account? Current [ ] Savings [ ] Fixed Deposit [ ]

7. For how long have you held a bank account?
   One year [ ] Two years [ ] Over two years [ ]

SECTION B: THE SERVQUAL INSTRUMENT

S.N		EXPECTIONS					PERCEPTIONS				
		How Important is this item to you					Level of satisfaction with this item				
		1	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**	**5**
1.	**Tangibles:**										
a.	The Bank's has modern looking equipment										
b.	The Bank's physical facilities are visually appealing										
c.	The Bank's reception desk employees are neat appearing										
d.	Materials associated with the service(such as pamphlets or statements) are visually appealing at the Bank										
2.	**Reliability:**										
a.	When excellent Banks promise to do something by a certain time, they do										
b.	When a customer has a problem, excellent banks will show a sincere interest in solving it										
c.	Excellent banks will perform the service right the first time										
d.	Excellent banks will insist on error free records										

			EXPECTIONS					PERCEPTIONS				
			How Important is this item to you					Level of satisfaction with this item				
			1	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**	**5**
3.		**Responsivess :**										
	a.	Employees of excellent banks will tell customers exactly when services will be performed										
	b.	Employess of excellent banks will give prompt service to customers										
	c.	Employees of excellent banks will always be willing to help customers										
	d.	Employees of excellent banks will never be too busy to respond to customers' requests.										
4.		**Empathy:**										
	a.	Excellent banks will give customers individual attention										
	b.	Excellent banks will have operating hours convenient to all their customers										
	c.	Excellent banks will have employees who give customers personal attention										
	d.	Excellent banks will have their customer's best interests at heart										
	e.	The employees of excellent banks will understand the specific needs of their customers										

Thank you for your Participation in this research.

APPENDIX II: BANKING INSTITUIONS

	Banking Institutions	Sample Frame	Percentage of the sample Size
1	**African Banking Corporation**	1	**100%**
2	**Bank of Africa Ltd**	1	**100%**
3	**Bank of India**	1	**100%**
4	**Barclays Bank (K)**	1	**100%**
5	**Central Bank of Kenya**	1	**100%**
6	**Cfc Stanbic Bank Kenya**	1	**100%**
7	**Chase Bank (K)**	1	**100%**
8	**Citibank N.A.**	1	**100%**
9	**City Finance Bank Ltd***	1	**100%**
10	**Commercial Bank of Africa***	1	**100%**
11	**Consolidated Bank**	1	**100%**
12	**Co-operative Bank**	1	**100%**
13	**Credit Bank***	1	**100%**
14	**Development Bank of Kenya**	1	**100%**
15	**Diamond Trust Bank**	1	**100%**
16	**Dubai Bank**	1	**100%**
17	**Dubai bank (K)**	1	**100%**
18	**Ecobank Kenya Ltd**	1	**100%**
19	**Equatorial Commercial Bank**	1	**100%**

20	**Equity Bank**	1	**100%**
21	**Fidelity Commercial bank**	1	**100%**
22	**Fina Bank Ltd**	1	**100%**
23	**First Community Bank**	1	**100%**
24	**First Community Bank (K)**	1	**100%**
25	**Giro Commercial Bank ltd***	1	**100%**
26	**Guardian bank ltd***	1	**100%**
27	**Gulf African Bank (K)**	1	**100%**
28	**Habib Bank (K)***	1	**100%**
29	**Habib Bank A.G. Zurich**	1	**100%**
30	**Imperial Bank (K)**	1	**100%**
31	**Investment & Mortgages Bank**	1	**100%**
32	**K Rep Bank (K)**	1	**100%**
33	**Kenya Commercial Bank**	1	**100%**
34	**K-Rep Bank Ltd***	1	**100%**
35	**Middle East Bank Kenya* ltd**	1	**100%**
36	**National Bank of Kenya**	1	**100%**
37	**NIC Bank ltd**	1	**100%**
38	**Oriental Commercial Bank**	1	**100%**
39	**Paramount Universal Bank Ltd***	1	**100%**
40	**Prime Bank**	1	**100%**

41	**Southern Credit Corp***	1	**100%**
42	**Standard Chartered**	1	**100%**
43	**Trans-National Bank**	1	**100%**
44	**UBA Kenya***	1	**100%**
45	**Victoria Commercial Bank***	1	**100%**
	TOTAL	**45**	**100%**