EFFECT OF SERVICE RECOVERY STRATEGIES ON SERVICE QUALITY IN COMMERCIAL BANKS IN KENYA

BY:

JAMES MUTUNGA MWANGANGI

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DECLARATION

This research project is my original work and has not been submitted to any university for examination.

Signed...Date…………………

James Mwangangi

D61/77137/2012

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

Signed...Date…………………

Stephen Odock

Lecturer, Department of Management Science,

School of Business,

University of Nairobi.

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I am also indebted to my wife for her concern, encouragement; love, support, and understanding that she accorded me at the hour of my need

May God bless you all.

DEDICATION

This research project is dedicated to Almighty God, my lovely wife Annastacia and

My unborn Child.

ABSTRACT

All service providers endeavour to provide world class service. World class being a measure of the quality of services provided with reference to the market leader as seen from the customer's viewpoint. Customers are satisfied when their expectations are met and delighted when their expectations exceeded. However, this is not always possible and non-standard services are experienced by customers. These are collectively called service failures and have negative impact on the firm. This endeavoured to establish the service recovery strategies commercial banks in Kenya use to deal with service failures. The study covered 32 out of 44 commercial banks in Kenya and the effect those strategies have on service quality by using one respondent per bank. The study found out those service recovery strategies: comprehensive formal strategy, accessibility and influence strategy, central authority strategy and intensity strategy are all adopted in almost equal proportions by commercial banks in Kenya. This is explained by the compensating effect the different strategies have on each other. The study also found out that different service recovery strategies had varying effect on different service quality attributes and should thus be implemented in proportions that achieve optimal service quality. The study also found out that comprehensive formal strategy and Central authority strategy are the most adopted by commercial banks in Kenya. The study found out that comprehensive formal strategy and central authority strategy have positive effect on service quality while accessibility and influence strategy and intensity strategy have negative influence on service quality. The study also established that only central authority has positive significant effect on service quality. It is thereby recommended that the study be repeated using more respondents per bank and use of factors as independent variables since comprehensive formal strategy, accessibility and influence strategy and intensity strategy have insignificant influence on service quality.

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ABBREVIATIONS AND ACRONYMS

ATM- Automatic teller machine

CBK –Central Bank of Kenya

FPOC – First point of contact

KCB – Kenya Commercial Bank

NPLs - Non-performing loans

SACCOS- Savings and credit cooperative societies

USA – United States of America

SERVQUAL – Service quality

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Many business oriented service providers endeavour to provide world class service. World class being a measure of the quality of services provided with reference to the market leader as seen from the customer's viewpoint (Stock & Lambert, 1992). Customers are satisfied when their expectations are met and delighted when their expectations exceeded (Parasuraman, Berry & Zeithmal, 1991). These customer expectations and demands continue to grow and at the same time want to pay less for these increased demands (Behara & Gunderson, 2001). However, it is not always possible to attain zero defects and non-standard services are often experienced by customers (Reichheld & Sasser, 1990). These are collectively called service failures. Boshoff (1997) asserts that failures or mistakes are unavoidable in all human endeavour to provide services and that there exists a natural response and reaction to service failure to attempt to mend the nasty experiences. This deliberated and calculated effort to make good the failures is thus referred to as service recovery (Gronroos, 1988).

A service organization has high quality if it meets customer preferences and expectations consistently. Haywood-Farmer (1988) in the attribute service quality theory argues that services have three basic attributes: physical facilities and processes; people's behaviour; and professional judgment and each attribute consists of a set of attributes which forms an apex of the triangle and that all attributes must receive equal attention else the triangle of quality collapses. For a firm to compete successfully, it must have an understanding of consumer perception of the quality and the way service quality is influenced. Managing perceived service quality means that

the firm has to match the expected service and perceived service to each other so that consumer satisfaction is achieved (Gronroos, 1984). Those in pursuit of service quality must address the gap between expectation and performance on quality. In this case, firms should aim at reducing the gap between what customers expect get and what they actually get (Parasuraman, Berry & Zeithmal, 1985).

The Kenya banking industry is rife with acute competition for customers from both local and international banks as well as microfinance institutions and mobile telephony firms. Kenyan banks are aggressively pursuing strategies that aid in meeting their customer expectations including the adoption of e-banking technologies to aid the quality of services (Ombati, Magutu, Nyamwange & Nyaoga, 2010). Service recovery, as a quality improvement tool can aid the achievement of superior service quality hence performance in the market since service recovery entrenches a culture of continuous quality improvement and management.

1.1.1 Service Recovery

According to Gronroos (1988), service recovery is the deliberate effort and action that service providers undertake as a response to service failure. Duffy, Miller and Bexley (2006) explain that these service failures are the real or perceived breakdown of service outcome or process. This service breakdown exposes the customers to non-standard quality of services. The bad experiences are caused by variations in the process due to the simultaneous nature of service production and consumption (Fitzsimmons, 1985). Duffy et al. (2006) point out that not all customers voice out their discontent with service quality level provided. When failures are identified, either by the service provider or the customers, there is a natural reaction to correct the situation (Boshoff, 1997). These actions triggered by service failure are what are

referred to as service recovery. The service recovery strategies attempt to identify actual and potential failures in delivery (Johnston & Clark, 2008). This leads to the optimisation of the performance of service delivery system which in turn leads to increased capacity of the system (Reichheld & Sasser, 1990).

It is through service recovery initiatives that service designs are revised and continuous improvement entrenched as an essential part of the firm' s operational system, associated procedures and processes. This way the firm reaps from the organisational learning through experiencing, studying and amicably remedying service failures. Service recovery leads to enhanced customer satisfaction, loyalty and future business hence higher profits (Miller, Craighead & Karwan, 2000). This happens through re-patronage and long term business relationships hence increasing sales revenues. Parasuraman and Berry (1991) point out the importance of managing customer complaints as well as the value of service recovery while Lewis and Spyrakopoulos (2001) say service recovery is more important than complaint handling. According to Colgate and Norris (2001) service recovery is the most important factor in driving customer to exit or stay after a service failure.

1.1.2 Service Quality

Service quality has been identified to be a function of service reliability, responsiveness, assurance, empathy and tangibles (Zeithmal, Parasuraman, & Berry, 1990). The reliability of a service is the ability to perform the design or the promised service consistently, dependably, and accurately over time. It is this service reliability that has often been cited as the most important or core dimension when assessing the quality of service and hence used as a competitive advantage for businesses in the marketplace (Cook, Bowen, Chase, Dasu, Stewart, & Tansik, 2002).

Customer satisfaction is depended on service quality where service quality is conformance is to specifications (Johnston, 1998). Parasuraman, Zeithmal and Malhotra (2005) developed the SERVQUAL model that assisted in translating customer expectations and perceptions to specifications that must be conformed to in order to attain service quality. However, many services are labour intensive and human service providers cause variations. As a result, service failures are a product of that human error in the service delivery process. This failure appears as either inappropriate intentions or actions not proceeding as intended by the service design (Stewart & Grout, 2001). This therefore, makes it difficult for service managers to achieve optimal quality, whilst adhering to a cost constraint (Soteriou & Chase, 2000).

1.1.3 Service Recovery and Service Quality

When undertaking error prevention strategies, the practice should discourage the cognitive mechanisms that generate errors. An improvement in the detection and correction capabilities, should lead to finding the means of increasing the likelihood that a negative outcome is unimportant (Stewart & Grout, 2001). The preconceived objective of correction and prevention of recurrence of the unimportant outcome is the service recovery (Johnston & Hewa, 1997). The result of operationalising service recovery strategies is that there is a stepwise improvement in quality and the delivery systems. Through these iterative revisions, an optimal solution to service design and processes is identified and adopted. The ultimate result is high quality services.

Studies indicate that effective service recovery is an effective tool for improving customer service quality (Boshoff, 1997; Reichheld & Sasser, 1990). Majority of

customers will not express their dissatisfaction with service (Andreasan & Best, 1977). This does not aid in error detection hence reliance on customer complaints could be misleading. Effective service recovery should detect service failures regardless of who identifies the failure and should be treated as an intentionally designed part of the service delivery system and not as an after thought. Heskett, Sasser and Schlesinger (1997) showed that when service recovery is accomplished correctly, the return on investment in service recovery can exceed 100 percent. McCollough and Bharadwaj (1992) identified a recovery paradox where satisfaction and repurchase rates of recovered customers exceeded those of customers who have not encountered any problems.

1.1.4 Banking Industry 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 liberalised in 1995 when exchange controls were lifted. The CBK, which falls under the Ministry of Finance, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system (Central Bank of Kenya, 2014).

According to Central Bank of Kenya (2014) annual report, as at March 31, 2014, the banking sector comprised 44 commercial banks, 1 mortgage finance company, 9 microfinance banks, 7 representative offices of foreign banks, 97 foreign exchange bureaus, 3 money remittance providers and 2 credit reference bureaus. The industry had the size of assets standing at Ksh. 2.8 trillion, loans and advances worth Ksh. 1.7 trillion, while the deposit base was Ksh. 2.0 trillion and profit before tax of Ksh. 33.4

billion as at 31st March 2014. The number of bank customer deposit and loan accounts stood at 23,816,147 and 3,463,900 respectively.

Cheserek (2007) observes that Kenyan banks have the lowest return on assets occasioned by the high cost of processing. The Central Bank quarterly report as at 31st March 2014 also indicate that there is deterioration of the quality of assets. This is indicated by the increase in the ratio of net assets to the non-performing loans (NPLs). Makau (2013) reported that banks have poor quality services due to ineffective processes and service recovery strategies. Busili (2013) studied the service quality dimensions used by banks in Kenya in agency banking and the study results indicated that banks take service quality dimensions in agency banking to be of great importance. The banks have put in place numerous mechanisms that aid in facilitating service quality at agent banking but the quality of services is poor. There is lack of clear communication with customers, long procedures; intrusive documentation and lack of flexibility are some of the causes resulting in service breakdown

The banking sector is a key component of the Kenyan economy contributing immensely in terms the financing of the other sectors of the Kenyan economy. The Chart below from the CBK (2014) annual report shows the sectoral distribution of financing that the banking sector has advanced.

Figure1.1: Sectoral Distribution of Loans (December 2013 vs. March 2014)
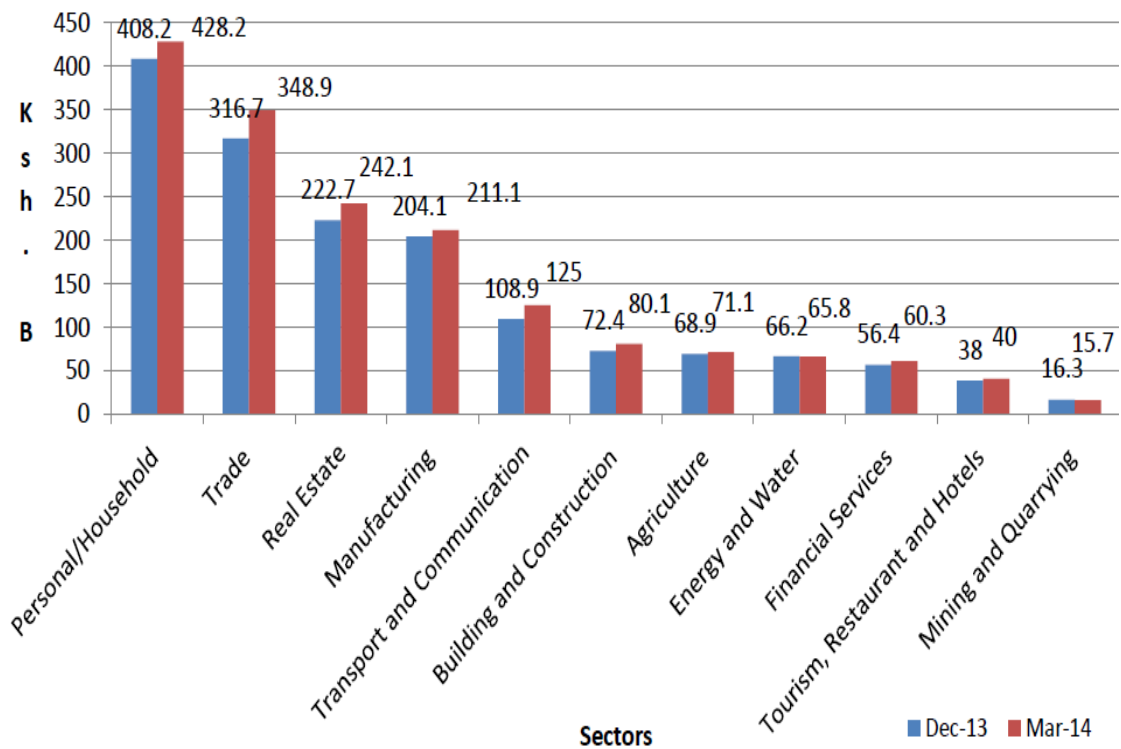
Source: CBK annual report, 2014

The industry faces the challenge of stiff competition resulting from the emergence of agency banking, growth of savings and credit cooperative societies (SACCO), deposit taking microfinance institutions as well as mobile telephony service providers invading the banking sector.

Under these conditions of acute competition, scrambling for the market of the banked and unbanked Kenyans and the declining quality of the asset book, banks are forced to adopt strategies and practices that outdo their peers in the market. This is achieved through quality improvement tools. Strategies on how to deal with service break down have been identified, these include; designing services to fit the needs of customers; ensuring that services are always of high quality without compromise; putting relevant systems in place; having competent employees in place; on time delivery of

services and ensuring that services are driven by customers to increase acceptance and satisfaction (Duffy, et al., 2006). Service recovery comes in handy as it enables firms to compete on the quality front. The quality of services offered serves as a bait to attract new customers as well as retain the existing one.

1.2 Research Problem

Best service quality is achieved through deliberate efforts to proactively identify failures and potential failures of the service delivery system, process and associated procedures (Johnston & Clark, 2008). It can be argued that service recovery leads to optimal service quality (Hays & Hill, 2005). Johnston, (2001), an industry management writer, linked complaint management to profits while Reichheld (1996) asserts that even small gains in customer retention facilitated by service recovery can lead to significant gains in profitability. Service recovery as a quality management tool offers firms the mechanisms to identify their service failures and initiate corrective mechanism (Johnston & Clark, 2008).

The Central Bank of Kenya quarterly report as at 31st March 2014 indicates that the Kenyan banking industry is composed of both local and international banks. The industry has also microfinance institutions and mobile telephony firms that offer banking and related services. The report also shows a declining quality of the asset book. The industry faces the challenge of improving its return on assets (Cheserek, 2007). There is need therefore, to find a way of improving the quality of assets in the industry. With these challenges and competition, service recovery can serve as the wildcard to win the battle and outdo competitors in the market in terms of quality of services on offer.

With the banking industry in Kenya so rife with competition little research has been undertaken on the effect of service recovery on service quality. Makau (2013) studied the service recovery processes within the Kenya Commercial Bank of Kenya and found out that the existing service recovery processes are not too effective. Busili (2013) studied the service quality dimensions used by banks in Kenya in agency banking. The study results indicated that banks take service quality dimensions in agency banking to be of great importance. And that the banks have put in place numerous mechanisms that aid in facilitating service quality at agent banking outlets.

Magori (2011) carried out a study on the customer perceptions of the quality of services offered by Kenya Commercial Bank (KCB) branches in Nairobi, Kenya whose results signified that the customers' expectations of the quality were higher than the delivered service. Ombati et al. (2010) studied the importance of technology on service quality and the findings revealed that, among other things, secure services, accuracy of records, ease of use, complaint satisfaction and accurate transactions were critical to service quality. However, no link to service recovery was drawn though it can be demonstrated that the key aspects of that research can be impacted positively by service recovery. It is in this premises that this study sought answers to the questions: What service recovery strategies dealing with service failures are employed in the banking sector in Kenya? What is the effect of these service recovery strategies on the service quality of commercial banks in Kenya?

1.3 Research Objectives

The objectives of this study were to:

i.   Determine the service recovery strategies commercial banks in Kenya employ to deal with service failures.

ii.   Establish the effect of the service recovery strategies employed on service quality of commercial banks in Kenya.

1.4 Value of the Study

The findings of this study can help banks see the link between their service recovery strategies and service quality. With the competition ever increasing in the market, the bank managers and operation managers are looking for ways of excelling in the market. It is through the iterative revision of processes and procedures that deliver service quality. This study can go along way in assisting managers in operationalising service recovery strategies and policies that relate to quality and effectively improve the quality of their assets.

This study could be useful to policy makers in shaping their opinion on the formulation of policies that are in line with consumer protection guidelines in terms of service quality. The regulators can gain an insight on initiating procedures that ensure consumers get the best quality for their money in the banking industry by recommending the existence and evidence of service recovery strategies.

This study can also assist service industry researchers in exploring the ways of overcoming the challenges that firms face in adopting service recovery strategies. It will be of interest to researchers to find out how much is the influence of service recovery strategies on service quality. The study in the formulation of theories related to service recovery strategies like the allocation of resources to service recovery strategies for optimal performance. The study may help researchers study further the concept of service quality and service recovery.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter starts by exploring the theoretical foundations of this study. This is followed by a section that looks at the service recovery strategies. Next, it displays the operationalisation of service recovery strategies. The section concludes by reviewing studies on service recovery and service quality.

2.2 Theoretical Foundation of the Study

Several theories explain service quality. Gronroos (1984) postulated the technical and functional quality theory. In this theory, in order for a firm to compete successfully it must have an understanding of consumer perception of the quality and the way service quality is influenced. Managing perceived service quality means that the firm has to match the expected service and perceived service to each other so that consumer satisfaction is achieved. The author identified three components of service quality, namely: technical quality (what the consumer actually gets); functional quality (how the customer gets service); and image (the picture held in the mind of the consumer).

Parasuraman et al. (1985) postulated the GAP theory. In this theory, service quality is a function of the differences between expectation and performance along the quality dimensions. They developed a service quality based on gap analysis. The various gaps visualized in the model are: difference between consumers' expectation and management's perceptions of those expectations, difference between management's perceptions of consumer's expectations and service quality specifications, difference between service quality specifications and service actually delivered, difference between service delivery and the communications to consumers about service

delivery, and lastly the difference between consumer's expectation and perceived service. This theory later evolved into the widely used SERVQUAL theory (Parasuraman et al., 2005).

Haywood-Farmer (1988) developed the attribute service quality theory. This theory states that a service organization has "high quality" if it meets customer preferences and expectations consistently. According to this, the separation of attributes into various groups is the first step towards the development of a service quality model. In general, services have three basic attributes: physical facilities and processes; people's behaviour; and professional judgment. Each attribute consists of a set of attributes which forms an apex of the triangle and that all attributes must receive equal attention else the triangle of quality collapses.

2.3 Service Recovery Strategies

Goldstein, Jonston, Duffy and Rao (2002) recommended that all organisations must incorporate recovery aspects in their service delivery systems. In a more profound research done by Smith, Karwan and Markland (2009) they argued that recovery should be systematic. They describe the critical and complimentary strategies of a service recovery system. According to Smith et al (2009) there are four specific strategies that firms adopt or practice service recovery in order to deal with service failures. These include: comprehensive and formal, centre of authority; intensity; accessibility and influence.

2.3.1 Comprehensive Formal Strategy

Firms practising this strategy have a service recovery system which is controlled by explicit rules, exhaustive procedures and norms that are documented and dictate recovery activities. Through this formality, variation in the post-failure interactions

between customers and frontline service employees is drastically reduced (Hart, Heskett & Sasser, 1990). This is achieved through setting guidelines and procedures for handling failures. Employee actions can be more readily governed (Johnston, 2001). This is particularly important as employees often attempt to make amends that are beyond the scope of the system or that are in opposition to a firm's financial well-being.

The comprehensive property of a formalised system preconceives the possible service failure and provides a menu of potential resolutions. A comprehensive system offers service personnel with several recovery options from which to choose when encountering dissatisfied customers. Thus, a situation is created where flexibility and responsiveness are enhanced in a recovery situation. The advantage of this is that organizations are provided with a broad range of solutions in order to ensure equity in the post failure exchange (McColl-Kennedy & Sparks, 2003). However, the firm is incapacitated by using its own perceptions instead of customer perceptions in contemplating possible failures and solutions. The formalisation locks out input from outside and hence a firm with this structure may not be well positioned to revise its delivery system in aid of service recovery hence a paradox.

2.3.2 Centre of Authority Strategy

Centre of authority defines the locus of authority for handling recovery activities. Decentralization is akin to employee empowerment and is often cited as being more effective than a system with a higher degree of centralized control (Bowen & Lawler, 1995). A decentralized recovery structure gives the contact employee the authority to correct failures upon discovery. Miller et al. (2000) argue that empowering employees is an effective measure for handing failures and that decentralized systems do not

imply anarchy. A firm with a decentralized recovery system lends itself to effective service recovery.

A centralised control strategy ensures uniformity and unity of direction. This strategy assists in allocation of resources and efficiency in solving failures. This is achieved through allocating authority and resources to specialised focal points. These centres of authority offload the failed services from the main service queue and have quality time to deal with the failures (Bowen & Lawler, 1995). They also argue that centralisation helps in replicating solutions hence eliminating the need to reinvent the wheel.

2.3.3 Accessibility and Influence Strategy

Recovery system accessibility refers to an organization's ability to facilitate customer complaints. The literature suggests accessibility involves the development and implementation of mechanisms that enable customers to express their concerns about service failures while allowing firms to capture the elusive "voice" of the customer (Colgate & Norris, 2001). Prior research recommends that firms should provide customers with multiple channels to express their concerns. Accessibility through various media increases the likelihood that firms will receive feedback from customers in light of service breakdowns (DeWitt & Brady, 2003).

Influence represents the degree to which this accessible system is altered to match the idiosyncratic needs of offended customers. By involving customers in the recovery process or taking into account situational contingencies when deciding how to resolve a problem, influence is shown to increase post-failure satisfaction levels (Tax & Brown, 1998). Recovery strategies that encourage customer influence increase

collaboration and promote the co-production of resolutions between the offended customers and a firm (Bendapundi & Leone, 2003). The key to successful infusion of customer access and influence into the recovery process is the perception of a customized solution, as adopting a "one-size-fits-all" approach may result in lower post-failure satisfaction levels. A firm with this structure is seen as aggressively valuing the views of the customers and putting them into great consideration and it is well positioned to recover all its failures and maintain its customers.

2.3.4 Intensity Strategy

Intensity is an organization's need to purposefully devote resources to recovery efforts. This concept takes on two distinct forms: human and system. Human intensity addresses employee training and evaluation. These elements allow for effective recoveries in that they arm employees with the capacity to find amicable solutions to the issues presented by customers and, thus, to reduce the risk of an escalating situation (Wirtz & Mattila, 2004). The guiding logic suggests employee training is the most effective means to enable and empower employees to properly address customer concerns and resolve complaints as first points of contact (FPOC).

The system component of intensity denotes the need to dedicate organizational resources to evaluate and alter the system itself. In other words, high system intensity involves the development of a feedback loop in order to gather information to appraise system performance and identify and correct inefficiencies. Described in the literature as "closing the loop" (Johnston & Mehra, 2002) or as a learning component, system intensity engender organizational learning, allowing the company to benefit through understanding the causes of failure episodes in order to prevent future occurrences.

2.4 Empirical Review

A number of studies have been conducted both outside and in Kenya on service recovery and service quality. Duffy et al. (2006) carried out a study on banking customers' varied reactions to service recovery strategies. The study aimed at examining the link between satisfaction and various service recovery strategies in US retail banking. The findings showed that the degree of customer satisfaction was strongly influenced by the type of recovery strategy used by the bank. The results indicated that recovery efforts are best directed toward empathic listening and fixing the problem rather than apologizing or making atonement.

Boshoff (1997) carried out an experimental study of service recovery options. The study explored what options are there for restitution when service failure happens. The study found out that there is a relationship between two of the three factors considered. These factors include; what was offered as remedy (level of atonement- apology or refund), who was involved (frontline staff or management staff) and the time it took to offer the remedy. What is offered as remedy (level of atonement) was found to be of most significance followed by the time it took to offer the atonement while who offered the atonement was found out to be insignificant.

Simons (2004) undertook a research on reliability based analysis of service recovery. This was necessary because previous researches had shown that service recovery can be beneficial compared to having no service recovery. However, the timing, sequence (placement), and benefits of service recovery individual steps within the broader context of the overall service delivery system were still not well understood. The paper presented an approach that helped to address these issues, providing support to

managers who must balance the cost of recovery efforts with their benefits to the company's bottom line. This reliability base model of service recovery assigned primary reliabilities to the individual steps then computing overall reliability of the service delivery system and evaluating the impact of recovery efforts on that overall reliability score.

Busili (2013) carried out a study on service quality dimensions adopted by commercial banks in agency banking in Kenya. The study results indicated that banks take service quality dimensions in agency banking to be of great importance. It was further noted that the banks have put in place numerous mechanisms that aid in facilitating service quality at agent banking outlets. The study indicated that the banks have a need to improve on these mechanisms as the indication of great competition emerging for the same kind of services. The challenges cited included system problems, rejection of the agency model by customers, location problems and poor training of agents in new and current. The study recommended that banks put in place strategies for service quality at agent banking outlets.

Another study was done by Ombati et al. (2012) on technology and service quality in the banking industry in Kenya. The study had the purpose of establishing the relationship between technology and service quality in the banking industry in Kenya. The findings revealed that customers were influenced mostly by secure services. Other factors included the convenience location of ATM, efficiency (no need to wait), the ability to set up accounts immediately, the accuracy of records, user friendly (ease of use), complaint satisfaction, accurate transactions and operation in 24 hours.

Makau (2013) studied the service recovery processes at KCB and found out that the existing service recovery processes identified were noted as not too effective. The study recommended that KCB adopts a centralized system for all customer complaints in the entire bank group, ensuring that customers fully understand the bank processes, and that they receive timely updates on their complaints. The study also, emphasized on the need for staff to develop customer focused attitude, and noted the need for the flexibility of bank processes to reduce bureaucracy, and provide alternative channels to customers.

Magori (2011) looked at the customer perceptions of the quality of services offered by Kenya Commercial Bank (KCB) branches in Nairobi, Kenya. The study results indicated that the service delivered was mainly perceived to be of average quality, thereby signifying that the customers' expectations of the quality were higher than the delivered service. The weak areas identified included long queuing for service while the contact center response to customers had a high mean score indicating that customers were happy with the service. The study recommended that in order to differentiate itself in the homogenous banking sector, KCB needs to make excellent service delivery its point of focus by devising ways of improving on the service delivered.

2.5 Summary

The studies discussed above showed the influence of practices and attributes of service recovery strategies on customer satisfaction in isolation. They have considered individual strategy to suffice in achieving service quality. The studies have also adopted an inductive approach of case studies to explain an industry wide

phenomenon. Lastly, the studies discussed do not draw any links to the magnitude and direction of the effect of service recovery strategies on service quality.

This study sought to establish the effect of all service recovery strategies on individual service quality attributes as well as the effect of the service recovery strategies on the overall quality of service in all commercial banks in Kenya. This study went further to show the magnitude and direction of the effect of service recovery strategies on service quality of commercial banks in Kenya. This study was therefore guided by the following conceptual framework.

Figure 2.1 Conceptual framework

Independent variable   Dependent variable

Service recovery strategies.
1. Formality and Comprehensiveness
2. Centre of authority
3. Accessibility and Influence
4. Intensity

Service quality attributes
1. Reliability
2. Responsiveness
3. Assurance
4. Empathy
5. Tangibles
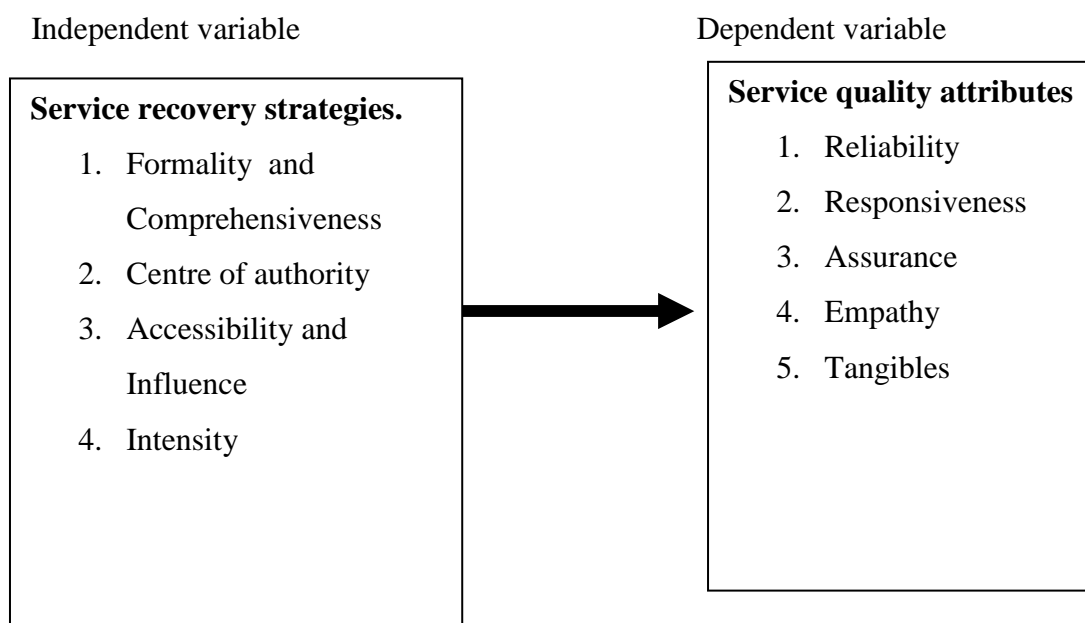
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter focuses on the research design that was used, the target population, the data collection procedures and instrument. The researcher goes further to display how the research variables were operationalised. In conclusion the researcher lays down the data analysis techniques that were used in analyzing the data after collection.

3.2 Research Design

The research design that used was a descriptive cross-sectional 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. Cross-sectional study designs are useful when studying one or more variables within a given population at one point in time and are useful for establishing associations and for determining prevalence (Churchill, 1991). In this study, a cross sectional survey gave us a snapshot of the relationship of the independent and dependent variables.

3.3 Population of the Study

The population of the study was all the commercial banks in Kenya. According to the CBK these total up to 44 banks as of 31st March 2014. However, Charter House Bank limited was under receivership and thus was not included hence the population of the study comprised the remaining 43 banks. Due to the relatively small size of the population, a census was undertaken.

3.4 Data Collection

Primary data was collected using a semi-structured questionnaire which was administered through 'drop-and-pick-later' method. The respondents were bank employees at the level of operations managers or supervisors who had an overall overview of the banks operations. In this study, only one respondent per bank was targeted. The questionnaire was divided into three sections. Section A consisted of questions on the profiles of the banks. Section B concentrated on finding out the various strategies adopted by the bank. While section C sought to obtain information on the service quality.

3.5 Data Analysis

The questionnaires were first checked for completeness, consistency and accuracy. The data to achieve the first objective was analysed using descriptive statistics of mean and standard deviation. The second objective's data was analysed using regression analysis. A multiple regression model was applied to determine how service recovery strategies affect service quality in commercial banks in Kenya. The multiple linear regressions used were: $Y_{i(1-5)} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

Where:

Y_1 = Tangibility

Y_2 = Reliability

Y_3 = Responsiveness

Y_4 = Assurance

Y_5 = Empathy

And

X_1 = Comprehensive formality strategy

X_2 = Central authority strategy

X_3 = Accessibility and influence strategy

X_4 = Intensity strategy

And

B_0 = regression constant

$\beta_1 - \beta_4$ = regression coefficients

ε = error term

In this case, the value of the coefficient of correlation (r) was computed to determine the magnitude and direction of the relationship. A model of the relationship was hypothesized, and estimates of the parameter values were used to develop an estimated regression equation. The estimated regression equation was used to predict the value of the dependent variable given values for the independent variables.

3.6 Operationalization of Study Variables

In this study, service recovery strategies were taken as independent variables, while service quality variables were used as the dependent variables. The table 3.1 and 3.2 shows how the independent and dependent variables have been operationalised.

Table 3.1 Operationalization of Independent Variables

Independent variables	Indicators
1. Comprehensive formal strategy	i. The extent to which service delivery and recovery was controlled by explicit rules, exhaustive procedures and documented norms. ii. The existence of recovery options or alternatives in dealing with service failures
2. Centre of authority strategy	i. The existence of focal points that have the authority and power to deal with failed service encounters. ii. All contact employees empowered to correct failures upon discovery

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3. Accessibility and influence strategy	i. The extent to which multiple channels for customers to express their concerns were provided
	ii. The extent to which customers were involved in finding solutions to failed service encounters
4. Intensity strategy	i. The existence of intensive and extensive training of employees to provide quality services and handle failures
	ii. The extent to which organisation devoted resources to gather information, evaluate the service delivery system and correct ineffectiveness so identified

Table 3.2 Operationalization of Dependent Variables

Dependent Variables	Indicators
1. Tangibility	i. The existence of modern looking equipment
	ii. The presence of appealing facilities,
	iii. Neat appearance of employees
	iv. Visually appealing materials associated with the services
2. Reliability	i. Expressing sincere interest in solving customer problem,
	ii. Performing service right first time,
	iii. Keeping the promise to perform services.
	iv. The insistence of keeping error free records
3. Responsiveness	i. Employees telling customers when exactly service will be performed
	ii. Offering of prompt service
	iii. Willingness to always help customers
	iv. Employees never too busy to respond to customer requests

4. Assurance	i.	Employees' ability to instil confidence
	ii.	When customers feel safe to transact
	iii.	Employees are consistently courteous with customers
	iv.	Employees possess excellent knowledge to answer customer questions
5. Empathy	i.	Employees giving customers excellent personal attention
	ii.	Providing convenient operating hours
	iii.	Keeping customers' interest at heart
	iv.	Employees understanding the specific needs of customers

CHAPTER FOUR: RESULTS, DATA ANALYSIS AND DISCUSSION

4. 1 Introduction

This chapter presents an analysis of data collected and discusses the findings on the effect of service recovery strategies on service quality of commercial banks in Kenya.

4.2 Demographic Characteristics of the Respondents

This section looked at the demographic characteristics of the respondents. The study comprised of 32 respondents drawn from 43 commercial banks

4.2.1 Number of Branches

The respondents were asked to indicate the number of branches the bank they work for had in the country. The results were as shown by table 4.1.

Table 4.1: Number of Branches

No. of branches	Between 1-5	Between 6-10	Between 11-15	Over 15	Mean	Std Dev.
No.	3	3	10	16	8	6.3
%	9.38%	9.38%	31.25%	50.00%		

The report indicates that with a standard deviation of 6.3, and a mean of 8, 50% of commercial banks have over 15 branches in the country, 31.25% have between 11-15 branches, 9.375% have between 6-10 branches while 9.375% have between 1-5 branches in the country.

4.2.2 Length of Operation in Kenya

The respondents were asked to indicate the length of time the bank they work for had operations in Kenya. The results were as tabulated in table 4.2.

Table 4.2: Length of Operation in Kenya

Range	Between 5-10	Between 16-20	Between 21-25	Over 25	Mean	Std Dev.
No.	6	2	8	16	8	5.9
%	18.75%	6.25%	25.00%	50.00%		

The report indicate that with a mean of 8 and standard deviation of 5.9, 50% of banks in Kenya have been in operation for over 25 years while 25% of banks have been in operation for 21-25years. Further the report indicates that 18.75% of banks have been in operation for 5-10 years while 6.25% have operated for 16-20 years.

4.2.3 Profitability Range of Banks

The respondents were asked to indicate the profitability range of the bank they work for. The results were as tabulated in table 4.3.

Table 4.3: Profitability Range of Banks

Profitability Range	Below 1b	Between 1-5b	Between 6-10b	Over 10b	Mean	Std Dev.
No.	7	17	5	3	8	6.2
%	21.88%	53.13%	15.63%	9.38%		

The findings of the report indicates that at a mean of 8 and standard deviation of 6.2, 53.125% of banks have a profitability range of between 1-5b while 21.875% make profits between 6-10bn. The report reveals that only 9.375% make over 10bn in profits while 15.625% have their profits ranging between 6-10bn.

4.3 Extent of adoption of Service Recovery Strategies

To provide inferential analysis on the extent to which commercial banks have adopted service recovery, the respondents were requested to indicate how they felt that the

bank had adopted service recovery strategies. The extent of adoption was thus analysed per strategy and also as a consolidation as presented below.

4.3.1 Extent of Adoption of Comprehensive Formal Strategy

The respondents were asked to indicate the extent to which comprehensive formal strategy was adopted. The results were as tabulated here below in table 4.4.

Table 4.4: Extent of the adoption of comprehensive formal strategy

Comprehensive formal Strategy	Mean	Std Dev	Rank
1. control by explicit rules, exhaustive procedures and documented norms	4.656	0.483	1
2. Provision of options or alternatives in dealing with service failures	3.781	1.157	2
Grand mean	4.22		

The results indicate that bank operations on service recovery were highly formalised. This is depicted in that majority of banks had service recovery strategies controlled by explicit rules, exhaustive procedures and documented norms with a mean of 4.656 and standard deviation of 0.483 against provision of options or alternatives in dealing with service failures with a mean of 3.781 and standard deviation of 1.157.

4.3.2 Extent of the Adoption of Centre of Authority Strategy

The respondents were asked to indicate the extent to which centre of authority strategy was adopted. The results were tabulated in table 4.5.

Table 4.5: Extend of Adoption of Centre of Authority Strategy

Centre of authority Strategy	Mean	Std Dev	Rank
1. Central points dealing with service failures	4.688	0.471	1
2. All contact employees have authority to deal with service failures	3.625	1.04	2
Grand mean	4.156		

The results indicate that majority of banks have adopted central points in dealing with service failures with a mean of 4.688 and standard deviation of 0.471 more than those who have empowered all contacts employees with a mean of 3.265 and standard deviation of 1.04 with a grand mean of 4.156

4.3.3 Extent of the Adoption of Accessibility and Influence Strategy

The respondents were asked to indicate the extent to which the bank adopted accessibility and influence strategy. The results were tabulated in table 4.6 below.

Table 4.6: Extent of the Adoption of Accessibility and Influence Strategy

Accessibility and influence Strategy	Mean	Std Dev	Rank
1. Provision of multiple channels for customers to present their concerns	4.563	0.669	1
2. Involving customers in finding solutions to failures	3.594	1.103	2
Grand mean	4.078		

The results indicated that banks provide many channels for customers to express their dissatisfaction with a mean of 4.563 and standard deviation of 0.669 than they involve

their customers in finding solutions to service failures with a mean of 3.594 and standard deviation of 1.103 against a grand mean of 4.078.

4.3.4 Extent of the Adoption of Intensity Strategy

The respondents were asked to indicate the extent to which banks had adopted intensive strategy in handling of service failures. The results were tabulated in table 4.7.

Table 4.7: Extent of the Adoption of Intensity Strategy

Intensity Strategy	Mean	Std Dev	Rank
1.Provision of intensive and extensive training of staff to handle service failures	4.656	0.483	1
2.Devotion of resources to gather information, evaluate system and correct ineffectiveness so identified	3.25	1.437	2
Grand mean	3.953		

The results indicated that banks devote more resources on providing intensive and extensive training to staff on handling of service failures with a mean of 4.656 and standard deviation of 0.483 than they devote on gathering information, evaluating the system and correcting ineffectiveness identified with a mean of 3.25 and standard deviation of 1.437 against a grand mean of 3.953

4.3.5 Extent of Adoption of Service Recovery Strategies

This section presents analysed data on all the strategies combined and compares among the strategies to establish the rate of adoption of the service recovery strategies. The results are presented in table 4.8 below.

Table 4.8: Extent of Adoption of Service Recovery Strategies

Strategy	Mean	%	Std Dev	Rank
Comprehensive formal strategy	4.22	26%	0.659	1
Centre of authority strategy	4.16	25%	0.602	2
accessibility and influence strategy	4.05	25%	0.755	3
Intensity strategy	3.96	24%	0.786	4
Grand mean	4.10			

From this analysis of the data collected, all the strategies are adopted in almost equal measure across the commercial banks in Kenya. Comprehensive formality strategy is adopted by 26% with a mean of 4.22 and standard deviation of 0.659 which indicates the presence of the bureaucratic formal operations of banks. Central authority is adopted 25% with a mean of 4.16 and standard deviation of 0.602 which is associated with control and security operations of banks. Accessibility and influence strategy is adopted by 25% with a mean of 4.05 and standard deviation of 0.755 which represents the channels available for customers to voice out their dissatisfaction as well influence the outcome of retribution and redress. Lastly, intensity strategy is adopted 24% with a mean of 3.96 and standard deviation of 0.786 which indicates the appetite of commercial banks to invest in training its staff as well as devote resources to collect information on service failures and enact corrective mechanisms.

4.4 Effect of Service Recovery Strategies on Service Quality

To facilitate an inferential analysis of the relationship between the elements of service recovery strategies and quality of services provided by commercial banks in Kenya, the respondents were requested to indicate the extent to which service recovery strategies are employed and also indicate the extend to which the service quality

attributes were demonstrated in their respective banks. The regression model adopted was $Y_{i(0-5)} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$

Where: Y_0 = Service Quality (overall), Y_1 = Tangibility, Y_2 = Reliability

Y_3 = Responsiveness, Y_4 = Assurance, Y_5 = Empathy, X_1 = Comprehensive formality strategy, X_2 = Central authority strategy, X_3 = Accessibility and influence strategy

X_4 = Intensity strategy

A multiple regression model was applied to determine the effect of the service recovery strategies on each of the service quality attributes individually and collectively. The results are tabulated and explained separately.

Table 4.9: Mean Responses for Each Bank's Service Recovery Strategy and the Corresponding Service Quality

	X_1	X_2	X_3	X_4	Y_1	Y_2	Y_3	Y_4	Y_5	Y_0
1	5	5	5	5	5	5	5	5	5	**5**
2	3	3	3	3	4	4	3.75	4	3.75	**3.9**
3	3	3	3	3	4	3.25	3.5	3.5	3.5	**3.55**
4	3.5	3.5	3.5	3.5	4	4	4	4	4	**4**
5	3.5	3	3	3	4	4.5	2.5	3.5	4	**3.7**
6	3	3	3	3	3.5	4	3.75	4	3	**3.65**
7	3	3	4.5	2.5	3.25	4	4	5	3.75	**4**
8	4	3	3	4	3.5	3.5	3.5	3.75	3.5	**3.55**
9	3.5	3.5	3.5	3.5	5	5	5	5	5	**5**
10	4	3.5	3	3	4	3.75	3.75	3.75	3.75	**3.8**
11	5	4	3.5	3.5	3.5	4.5	4.5	4	4	**4.1**
12	3.5	3	3	3	3.25	3.25	3.25	3.25	3.25	**3.25**
13	3.5	4	4	4	4	4	4	4	4	**4**
14	4	3	3	3	3.5	3.75	3	3.75	3.25	**3.45**
15	3.5	3.5	3.5	3.5	3.25	3.75	3.25	3.25	3.5	**3.4**
16	3	3	3	3	3.5	3.5	3.5	3.5	3.5	**3.5**
17	4	2.5	3.5	4	4	3.25	3.75	3.5	3	**3.5**
18	3.5	3	3	4	3.25	3	3	3	3.25	**3.1**
19	3	2	3	4	3.75	3.25	3.5	3	3.25	**3.35**
20	3.5	3	2.5	2.5	5	5	5	5	4	**4.8**
21	4	4	4	3	4	3.5	4	5	3	**3.9**
22	3.5	3.5	4	3.5	5	4	5	4	4	**4.4**
23	3	3	3	4	4.5	4	3.25	3.75	5	**4.1**
24	4	2.5	3	3.5	4	3.5	4	3	3.25	**3.55**
25	3.5	5	5	4	3.5	4	3.5	3.25	3.75	**3.6**
26	4	4.5	5	4	3.5	3.25	3.25	4	3	**3.4**
27	3	3	3	3.5	4	3.75	3	3.75	3.25	**3.55**
28	4	3.5	3.5	3	3.25	4	3.75	3	3.25	**3.45**
29	3.5	4.5	3.5	4.5	4	4.5	4.5	4.5	4.5	**4.4**
30	3.5	4	3	3	3	5	5	4	4	**4.2**
31	3	3	5	3.5	3.25	3.75	3.5	3.5	3.75	**3.55**
32	4	5	4	3	3.75	3.25	5	4	5	**4.2**

4.4.1 Service Recovery Strategies and Tangibility Attribute of Service Quality

The research model equation adopted is: $Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$.

Upon collection and regression analysis of data, the table 4.10 below is obtained.

Table 4.10: Service Recovery Strategies and Tangibility Attribute of Service Quality Regression Summary Output

Regression Statistics		Significance F(P)
Multiple R	0.261	0.740
R Square	0.068	
Adjusted R Square	-0.070	
Standard Error	0.579	
Observations	32.000	

ANOVA

	df	SS	MS	F
Regression	4	0.664	0.166	0.495
Residual	27	9.055	0.335	
Total	31	9.719		

	Coefficients	Standard Error	t Stat	P-value
Intercept	3.122	0.863	3.618	0.001
X1	0.052	0.230	0.226	0.823
X2	0.064	0.196	0.324	0.748
X3	-0.142	0.194	-0.732	0.471
X4	0.236	0.202	1.170	0.252

From the table, thus our regression model equation takes the form:

$Y_1 = 3.122 + 0.052X_1 + 0.064X_2 - 0.142X_3 + 0.236X_4$. With **P = 0.74** Where: Y_1 = Tangibility, X_1 = Comprehensive formality strategy, X_2 = Central authority strategy, X_3 = Accessibility and influence strategy, X_4 = Intensity strategy.

This model shows that tangibility explains only 6.8% of the variation of service quality. The P = 0.74 shows that the model is not significant at 5% level of significance. It can also be seen that comprehensive formal strategy, central authority strategy and intensity strategy have insignificant positive influence at 5% level of significance while accessibility and influence strategy has insignificant negative influence on service quality at 5% level of significance.

4.4.2 Service Recovery Strategies and Reliability Attribute of Service Quality

The research model adopted for this was $Y_2 = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$ which took the form: $Y_2 = 3.425 + 0.033X_1 + 0.358X_2 - 0.197X_3 - 0.054X_4$ $P = 0.36$

Where: Y_2 = Reliability, X_1 = Comprehensive formality strategy, X_2 = Central authority strategy, X_3 = Accessibility and influence strategy

X_4 = Intensity strategy. Table 4.11 represents the regression summary of this model.

Table 4.11: Service Recovery Strategies and Reliability Attribute of Service Quality Regression Summary Output

Regression Statistics		Significance F(P)
Multiple R	0.380	0.359
R Square	0.144	
Adjusted R Square	0.018	
Standard Error	0.566	
Observations	32.000	

ANOVA

	df	SS	MS	F
Regression	4	1.460	0.365	1.140
Residual	27	8.647	0.320	
Total	31	10.107		

	Coefficients	Standard Error	t Stat	P-value
Intercept	3.425	0.843	4.062	0.000
X1	0.033	0.224	0.149	0.883
X2	0.358	0.192	1.865	0.073
X3	-0.197	0.189	-1.039	0.308
X4	-0.054	0.197	-0.273	0.787

From the table above, reliability attribute of service quality explains 14.4% of variation on service quality and the P= 0.36 indicate that the model is insignificant at 5% level of confidence. Comprehensive formality strategy and Central authority strategy have insignificant positive effect on reliability attribute of service quality at 5% level of significance while accessibility and influence strategy and Intensity strategy have insignificant negative influence on the reliability attribute of service quality at the 5% level of significance.

4.4.3 Service Recovery Strategies and Responsiveness Attribute of Service Quality

The research model for this was $Y_3 = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$ which takes the form: $Y_3 = 2.453 + 0.233X_1 + 0.432X_2 - 0.094X_3 - 0.171X_4$ $P = 0.098$

Where: Y_3 = Responsiveness, X_1 = Comprehensive formality strategy, X_2 = Central authority strategy, X_3 = Accessibility and influence strategy, X_4 = Intensity strategy

Table 4.12 shows the regression summary of this model.

Table 4.12: Service Recovery Strategies and Responsiveness Attribute of Service Quality regression summary output

Regression Statistics		Significance F(P)		
Multiple R	0.494	0.098		
R Square	0.244			
Adjusted R Square	0.132			
Standard Error	0.650			
Observations	32.000			

ANOVA

	df	SS	MS	F
Regression	4.000	3.685	0.921	2.178
Residual	27.000	11.422	0.423	
Total	31.000	15.107		

	Coefficients	Standard Error	t Stat	P-value
Intercept	2.453	0.969	2.531	0.018
X1	0.233	0.258	0.902	0.375
X2	0.432	0.221	1.957	0.061
X3	-0.094	0.218	-0.434	0.668
X4	-0.171	0.227	-0.754	0.457

This model has explains 24.4% of variation in service quality while the P = 0.098 indicate that this model is insignificant at 5% level of significance. This model also explains that Comprehensive formality strategy and Central authority strategy have insignificant positive influence on responsiveness attribute of service quality at 5% level of significance, while Accessibility and influence strategy and Intensity strategy both have insignificant negative impact on responsiveness attribute of service quality at 5% level of significance.

4.4.4 Service Recovery Strategies and Assurance Attribute of Service Quality

The model for this was $Y_4 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$ which take the form:

$$Y_4 = 3.185 + 0.051X_1 + 0.307X_2 + 0.084X_3 - 0.249X_4 \qquad P = 0.211$$

Where: Y_4 = Assurance, X_1 = Comprehensive formality strategy, X_2 = Central authority strategy, X_3 = Accessibility and influence strategy, X_4 = Intensity strategy

Table 4.13 shows the regression analysis report for this model.

Table 4.13: Service Recovery Strategies and Assurance Attribute of Service Quality Regression Summary Output

Regression Statistics		Significance F(P)		
Multiple R	0.434	0.211		
R Square	0.189			
Adjusted R Square	0.068			
Standard Error	0.597			
Observations	32.000			

ANOVA

	df	SS	MS	F
Regression	4.000	2.239	0.560	1.569
Residual	27.000	9.629	0.357	
Total	31.000	11.867		

	Coefficients	Standard Error	t Stat	P-value
Intercept	3.185	0.890	3.579	0.001
X1	0.051	0.237	0.216	0.831
X2	0.307	0.203	1.516	0.141
X3	0.084	0.200	0.422	0.676
X4	-0.249	0.208	-1.198	0.241

From this table, assurance as an attribute of service quality, explains 18.9% of the variation of service quality. With $P = 0.211$, this model is insignificant at 5% level of significance. Comprehensive formality strategy, central authority and accessibility and influence strategy have insignificant influence on service quality at 5% level of significance while also at the same level of significance; intensity strategy has insignificant negative influence on service quality.

4.4.5 Service Recovery Strategies and Empathy Attribute of Service Quality

The model adopted for this was $Y_5 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$ which takes the

form: $Y_5 = 2.711 - 0.195 X_1 + 0.53 X_2 - 0.219 X_3 + 0.200 X_4 \ \ P = 0.05$

Where: Y_5 = Empathy, X_1 = Comprehensive formality strategy, X_2 = Central authority

strategy, X_3 = Accessibility and influence strategy, X_4 = Intensity strategy

Table 4.14 shows the regression analysis summary of this model.

Table 4.14 Service Recovery Strategies and Empathy Attribute of Service Quality Regression Summary Output

Regression Statistics		Significance F(P)		
Multiple R	0.531	0.050		
R Square	0.282			
Adjusted R Square	0.176			
Standard Error	0.553			
Observations	32.000			

ANOVA

	df	SS	MS	F
Regression	4.000	3.246	0.811	2.654
Residual	27.000	8.254	0.306	
Total	31.000	11.500		

	Coefficients	Standard Error	t Stat	P-value
Intercept	2.711	0.824	3.290	0.003
X1	-0.195	0.219	-0.890	0.381
X2	0.530	0.188	2.825	0.009
X3	-0.219	0.185	-1.185	0.246
X4	0.200	0.193	1.037	0.309

From this model, empathy explains 28.2% of variation of service quality. This model

is significant at 5% level of significance. Comprehensive formality strategy and

accessibility and influence strategy have insignificant negative influence on service

quality, central authority strategy has significant positive influence while intensity

strategy has insignificant positive influence on service quality all at 5% level of

significance.

4.4.6 Service Recovery Strategies and Service Quality

The model adopted for this was $Y_0 = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$ which takes the

form: $Y_0 = 2.979 + 0.035X_1 + 0.338X_2 - 0.114X_3 - 0.008X_4 \quad P = 0.166$

Where: Y_0 = Service Quality (overall), X_1 = Comprehensive formality strategy,

X_2 = Central authority strategy, X_3 = Accessibility and influence strategy while

X_4 = intensity strategy. Table 4.15 shows the regression summary of this model.

Table 4.15: Service Recovery Strategies and Service Quality Regression Summary Output

Regression Statistics		Significance F	
Multiple R	0.455	0.166	
R Square	0.207		
Adjusted R Square	0.089		
Standard Error	0.463		
Observations	32.000		

ANOVA

	df	SS	MS	F
Regression	4.000	1.512	0.378	1.760
Residual	27.000	5.800	0.215	
Total	31.000	7.312		

	Coefficients	Standard Error	t Stat	P-value
Intercept	2.979	0.691	4.314	0.000
X1	0.035	0.184	0.189	0.851
X2	0.338	0.157	2.150	0.041
X3	-0.114	0.155	-0.732	0.470
X4	-0.008	0.161	-0.047	0.963

From the regression summary output, overall influence of service recovery strategy on service quality is insignificant at 5% level of significance. At the same level of significance, comprehensive formal strategy has insignificant positive influence, Central authority strategy has significant positive strategy while both accessibility and

influence strategy and intensity strategy have insignificant negative influence on service quality.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, the researcher gives a summary of the research findings, conclusions, recommendation and suggestion for further research.

5.2 Summary

The main objective of this study was to establish the effect of service recovery strategies on service quality of commercial banks in Kenya. Data for analysis was obtained by use of questionnaires designed by the researcher for operation managers in the banks branches who are in-charge of operations at their respective branches. From data analysis in chapter four, the study isolated some issues relevant to the effect of service recovery strategies on service quality for commercial banks in Kenya. The findings relating to the objectives are summarized as follows.

5.2.1 Service Recovery Strategies Adopted by Commercial Banks in Kenya

From the analysis of the data collected, all the strategies are adopted in almost equal measure across the commercial banks in Kenya. Comprehensive formality strategy is adopted by 26% which indicates the presence of the bureaucratic formal operations of banks. Central authority is adopted 25% which is associated with control and security operations of banks. Accessibility and influence strategy is adopted by 25% which represents the channels available for customers to voice out their dissatisfaction with service as well influence the outcome of retribution and redress. Lastly, intensity strategy is adopted 24% which indicates the appetite of commercial banks to invest in

training its staff as well as devote resources to collect information on service failures and enact corrective mechanisms.

5.2.2 Effect of Service Recovery Strategies on Service Quality

The implementation of Comprehensive formal strategy, central authority strategy and intensity strategy can lead to improved service quality of commercial banks in Kenya while the implementation of accessibility and influence strategy leads to reduced quality of services though marginally. A lot of effort input is called for if banks are to influence positively the quality of services through tangibility attribute. Implementing comprehensive formal strategy and central authority strategy would lead to improved quality of services through the reliability attribute of service quality, while accessibility and influence and intensity strategy would lead to deteriorating reliability of quality of services.

To improve assurance attribute of service quality, comprehensive formality strategy, central authority and accessibility and influence strategy have to be implemented while opting out of intensity strategy that has a negative influence on assurance. In order to improve responsiveness attribute of service quality then, comprehensive formality strategy and central authority strategy should be adopted while moving away from accessibility and influence strategy as well as intensity strategy. To improve empathy attribute of service quality, central authority strategy and intensity strategy should be implemented. Lastly, for overall optimal improvement of quality, comprehensive formality strategy and central authority should be implanted.

5.3 Conclusion

From the foregoing discussion, various recovery strategies are adopted by commercial banks in Kenya to deal with service failures in varying proportions yielding varying outcomes. This finding mirrors that of Makau (2013) on customer service recovery processes at Kenya Commercial Bank Limited. Some strategies affect positively on some attributes of quality, while others have negative influence on quality attributes. This finding is collaborated by Smith et al. (2009) who examined the structural dimensions of service recovery and found out that service quality has to be approached from all its constituent attributes of tangibility, assurance, reliability, responsiveness and empathy.

Since service quality requires the consideration of the five attributes in equal proportions, and then all the service recovery strategies should be adopted so as to counter the negative influences. From the prevalence analysis above, it can be seen that commercial banks in Kenya have realized this as adoption of the strategies is in almost equal measures.

5.4 Recommendations

It is therefore recommended that commercial banks in Kenya have to implement service recovery strategies in equal measure as the strategies have compensating effect on each other so as to achieve optimal quality of services. Comprehensive formal strategy of service recovery has positive influence on all attributes of service quality and should therefore be put in focus.

In light of these, commercial banks should create data banks and reference guides that deal with service failures as espoused by comprehensive formality strategy of service recovery. This way, employees will have comfort in dealing with service failures as they shall always refer to the formal guides and the proposed solutions to service failures.

5.5 Limitations of the Study

The study comprised of commercial banks in Kenya and only one responded per institution, this one respondent may not sufficiently represent the whole organisation that has many employees with varying perspectives and opinions.

The study relied on service recovery strategies as the driving factors towards service quality. This can be misleading since service quality can be achieved through several approaches including total quality management practices that do not include service recovery.

5.6 Suggestions for Further Research

The researcher suggests case studies on service recovery strategies adopted by individual banks in dealing with service failures and then a comparative study on the outcome of the case studies in order to limit the one respondent bias.

This study established that some strategies have insignificant effect on service quality as depicted in the results discussion above, it is in this light therefore, it is recommended that the study be undertaken using other factors as the control variables.

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APPENDICES

Appendix 1: Letter of Introduction
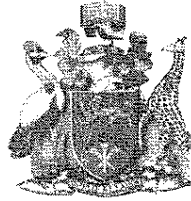
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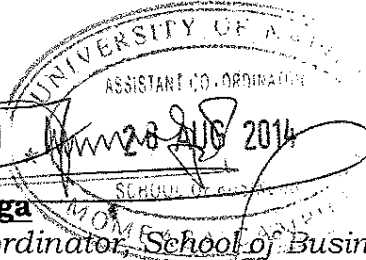---

DATE: 27TH August, 2014

TO WHOM IT MAY CONCERN

The bearer of this letter, **James Mwangangi** of Registration Number **D61/77137/2012** 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 *Effect of Service Recovery Strategies on Service Quality in 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.

Joseph Aranga
Assistant Coordinator, School of Business-Mombasa Campus

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Appendix 2: Questionnaire.

Section A: Bio data

This section enquires on the demographic profile of your bank. Kindly tick the option that reflects your answer.

1. What is the number of branches of your bank?

   A. 1-5

   B. 6-10

   C. 11-15

   D. Over 15

2. For how long has the bank operated in Kenya?

   A. 5- 10 yrs

   B. 16- 20yrs

   C. 21-25yrs

   D. Over 25yrs

3. What is the profitability range of your bank?

   A. Below 1bn

   B. 1-5bn

   C. 6-10b

   D. Over 10bn

Section B: Service recovery strategies

To what extent do you agree with the below statements? In a scale of 1-5, indicate the extent to which the bank has employed the mentioned service recovery strategies.

Key:

1. = Strongly Disagree

2. = Disagree

3. = Neither Agree or Disagree

4. = Agree

5. = Strongly Agree

1.	**Comprehensive formal strategy**	1	2	3	4	5
	i. Service delivery and recovery is controlled by explicit rules, exhaustive procedures and documented norms					
	ii. The bank provides recovery options or alternatives in dealing with service failures					
2.	**Centre of authority strategy**	1	2	3	4	5
	i. The bank provides desks or points that have the authority and power to deal with failed service encounters					
	ii. The bank provides the power and authority to all contact employees to correct failures upon discovery					
3.	**Accessibility and influence strategy**	1	2	3	4	5
	i. The bank provides multiple channels for customers to express their concerns					
	ii. The bank involves customers in finding solutions to failed service encounters					
4	**Intensity strategy**	1	2	3	4	5
	i. The bank provides intensive and extensive training to employees on provision of quality services and handling of failures.					
	ii. The bank devote resources to gather information, evaluate the service delivery system and correct ineffectiveness so identified					

Section C: Service Quality Attributes

To what extent do you agree with below statements? In a scale of 1-5, indicate your response

Where: 1= Strongly Disagree. 2=Disagree. 3= Neither Agree or Disagree 4= Agree.

5= Strongly Agree.

5.	**Tangibility attribute**	1	2	3	4	5
	i. There is existence of modern looking tools and equipment					
	ii. There is presence of appealing facilities					

		1	2	3	4	5
	iii. There is neat appearance of employees					
	iv. There is visually appealing materials associated with the services					
6.	**Reliability attribute**	1	2	3	4	5
	i. Services are offered at the promised time					
	ii. Employees express sincere interest in solving customer problem					
	iii. Services are performed right first time					
	iv. Employees insist on keeping error free records					
7.	**Responsiveness attribute**	1	2	3	4	5
	i. Employees tell customers exactly when they will be served					
	ii. Service is offered promptly					
	iii. Employees are always willing to help customers					
	iv. Employees are never too busy to respond to customer requests					
8.	**Assurance attribute**	1	2	3	4	5
	i. Employees have the ability to instil confidence on customers					
	ii. Customers feel safe to transact within the bank					
	iii. Employees are consistently courteous with customers					
	iv. Employees possess excellent knowledge to answer customer questions					
9.	**Empathy attribute**	1	2	3	4	5
	i. Employees give customers excellent personal attention					
	ii. The bank provides convenient operating hours					
	iii. Employees keep customers' interest at heart					
	iv. Employees understand the specific needs of customers					

END

THANK YOU

Appendix 3: List of Commercial Banks in Kenya

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

33. Kenya Commercial Bank

34. K-Rep Bank

35. Middle East Bank Kenya

36. National Bank of Kenya

37. NIC Bank

38. Oriental Commercial Bank

39. Paramount Universal Bank

40. Prime Bank (Kenya)

41. Standard Chartered Kenya

42. Trans National Bank Kenya

43. United Bank for Africa

44. Victoria Commercial Bank