SERVICE QUALITY AND CUSTOMER SATISFACTION IN THE BANKING SECTOR IN KENYA

SUBMITTED BY:

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DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any university for academic credit

Signed: …………………………….   Date:…………………………………..

Name: Bitta Martha Awuor   Admission No.:D61/75235/2009

This project has been presented for examination with my approval as the appointed supervisor.

Signed: …………………………….   Date:…………………………………..

Name: Dr. Owino Agaya Okwiri

DEDICATION

I dedicate this work to the love of my life Paul Ogongo, my son Ersendyck Luke Ogongo, my sweet mum Jane Nyayieka and my siblings Jacky, Cliff, Kitis and Orinyo.

ACKNOWLEDGEMENT

I wish to thank The Almighty God for giving me the gift of life to write this work. I wish to express my gratitude to my supervisor Dr. Owino Agaya Okwiri for his professional guidance and motivation that enabled me compile this proposal. I wish to extend my gratitude to my classmates whose presence offered me psychological motivation and the need to learn more.

Finally, I thank my family for supporting me throughout my studies at the various levels and their unconditional love to me is my greatest strength.

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ABSTRACT

As the service industry becomes increasingly competitive, firms continuously look for ways to distinguish themselves from competitors. Service quality has attracted major attention from academic researches as well as marketers over the recent years due to its significant role in business performance and maintenance of customer loyalty. Recent growth in the service sector, banking included, has necessitated the need for service providers to understand customers' view of quality of service offered. Only then can they effectively optimize their returns from the service and stay ahead of competitors. This study sought to answer the following question; what are the customers' views, thoughts and feeling on the quality of service offered by commercial Banks in Kenya? The study identified the possible expectations that customers have on the quality of service. The study adopted descriptive design with population of interest being customers of commercial banks in Nairobi CBD. Questionnaires were administered to customers from a total of 44 commercial banks located within Nairobi CBD. The findings from the study established a positive relationship between service quality and customer satisfaction in Kenyan banks. The conclusion from this study is that Customer satisfaction can lead to higher rates of retention of the Kenyan bank customers. Recommendations based on the findings were made to the Kenyan banks which if implemented will enhance the satisfaction of the bank customers as well as improve customer retention rates.

CHAPTER ONE:

INTRODUCTION

1.1 Background of the Study

Recent years have shown a growing interest in customer satisfaction. The globalization of competition, saturation of markets, and development of information technology have enhanced customer awareness and created a situation where long-term success is no longer achieved through optimized product price and qualities. Instead, companies build their success on a long-term customer relationship. According to former studies, it can cost as much as six times more to win a new customer than it does to keep an existing one. Depending on the particular industry, it is possible to increase profit by up to 60% after reducing potential migration by 5%. Hence, the increase and retention of loyal customers has become a key factor for long-term success of the companies.

Consumers all over the world have become more quality conscious; hence there has been an increased customer demand for higher quality service. Service operations worldwide are affected by this new wave of quality awareness and emphasis (Lee 2004). Therefore service-based companies like the banks are compelled to provide excellent services to their customers in order to have sustainable competitive advantage, especially in the current trend of trade liberalization and globalization. High patronage of services depends on the satisfaction customers derived from a service. Sales are directly related to customer satisfaction; sales increase requires improvement in the quality of service delivery to encourage continuous patronage.

Operations management is an area of business concerned with the production of goods and services, and involves the ensuring that business operations are efficient in terms of using as little resource as needed, and effective in terms of meeting customer requirements. It is concerned with managing the process that converts inputs (in the forms of materials, labor and energy) into outputs (in the form of goods and services). In general, Operations Management aims to increase the content of value-added activities in any given process. It is important that these value-adding creative activities should be aligned with market opportunity for optimal enterprise performance. Operations traditionally refer to the production of goods and services separately, although the distinction between these two main types of operations is increasingly difficult to make as manufacturers tend to merge product and service offerings.

1.1.1 Service Quality

Crosby (1979) defined quality as conformance to requirements. According to Lewis and Booms (1983), giving quality service implies meeting the requirements to customer expectations regularly. Parasuraman *et al* (1985) defined service quality as the degree and direction of discrepancy between consumer's perceptions and expectations in terms of different but relatively important dimensions of the service quality, which can affect their future purchasing behavior. From customer point of view, quality means fitness for use and meeting customer satisfaction. Service quality is important aspect that affects the competitiveness of business. Banks should increase the quality of service constantly since there is no assurance that the current outstanding service is also suitable for future. Consequently, banks should "develop new strategy" to satisfy their customer and should provide quality service to distinguish themselves from rivalries (Siddiqi; 2011).

Quality evaluations derive from the service process as well as the service outcome. As stated by (Gronroos, 1982) there are two types of service quality these are technical quality and functional quality. Technical quality is - what the customer is actually receiving from the service (outcome) while functional quality is the manner in which the service is delivered (process). Models have been developed to measure service quality and they include: Nordic model (Gronroos 1984), SERVQUAL model (Parasuraman et al 1985), Multilevel model (Dabholkar et al 1996) and Hierarchical model (Brady and Cronin (2001).

According to Markovic and Jankovic (2013), service quality is measured using SERVQUAL instrument which consists of 22 items which measure five service quality dimensions, namely, tangibles (physical facilities, equipment, and appearance of employees), reliability (ability to perform the promised service dependably and accurately), responsiveness (willingness to help customers and provide prompt service), assurance (knowledge and courtesy of employees and their ability to inspire trust and confidence), and empathy (caring and individualized attention the firm provides its customers).

1.1.2 Customer Satisfaction

Customer satisfaction is a psychological concept that involves the feeling of wellbeing and pleasure that results from obtaining what one hopes for and expects from an appealing product and/or service (Kotler and Keller, 2006). Lovelock (2004) conceptualizes customer satisfaction as an individual's feeling of pleasure (or disappointment) resulting from comparing the perceived performance or outcome in relation to the expectation. According to Lovelock and Wirtz (2007), customer satisfaction is a consumer's post-purchase evaluation and affective response to the overall product or service experience.

Satisfaction can be determined by subjective (e.g. customer needs, emotions) and objective factors (e.g. product and service features). Customer satisfaction is perceived as a cumulative and transactional. On the one hand from a transactional-specific perspective, customer satisfaction is based on a one time, specific post-purchase evaluative judgment of a service encounter (Wang and Lo, 2002). On the other hand, in the cumulative customer satisfaction perspective, it is conceptualized as an overall customer evaluation of a product or service based on purchase and consumption experiences over a time period (Lovelock and Wirtz, 2007). Lovelock and Wirtz argue that since cumulative satisfaction is based on a series of purchase and consumption experiences, it is more useful and reliable as a diagnostic and predictive tool than the transaction perspective that is based on a one-time purchase and consumption experience.

Expectation influences customer satisfaction through market communication, image, word of mouth and customer needs. Customer satisfaction is an important element that drives customer retention, loyalty and post-purchase behavior of customers (Kotler and Keller, 2006).

1.1.3 Service Quality and Customer Satisfaction

Service quality and customer satisfaction are distinct concepts, although they are closely related. Quality is a form of overall evaluation of a product, similar in many ways to attitude. Quality acts as a relatively global value judgment. Perceived quality is the consumer's judgment about an entity's overall excellence or superiority. It is a form of attitude, related but not equivalent to satisfaction, and results from comparison of expectations with perceptions of performance. According to Oliver (1981), satisfaction is a summary psychological state resulting when the emotion surrounding disconfirmed expectations is coupled with the consumer's prior feelings about the consumption experience. Therefore, satisfaction relate to a specific transaction. Comparative studies revealed that regardless of the type of service, customers used basically the same general criteria in arriving at an evaluative judgment about service quality.

Service companies have since recently focused on customers in order to improve competitiveness. Measurement of customer satisfaction regarding the service quality of firms is a necessary means by which organizations delve into the minds of its customers for useful feedback that could form the basis for effective marketing strategy. Customer satisfaction is one of the important outcomes of marketing activity (Mick and Fournier; 1999). In the competitive banking industry, customer satisfaction is considered as the fundamental of success. Businesses recognize that keeping current customers is more profitable than having to win new ones to replace those lost. Good customer satisfaction has an effect on the profitability of nearly every business. Anderson and Zemke (1998) stated that satisfied customers improve business and dissatisfied customers impair business.

Jun and Cai (2001) identified 17 service quality dimensions of banking service that enhances customer satisfaction: reliability, responsiveness, competence, courtesy, credibility, access, communication, understanding the customer, collaboration, continuous improvement, content, accuracy, ease of use, timeliness, aesthetics, security and divers features. As Singh (2004) observes, banks enjoy business benefits that accrue from customer satisfaction such as generation of additional revenue, marketing penetration and cost saving.

1.1.4 Banking Sector in Kenya

As at December 2013, the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage finance company - MFC), 7 representative offices of foreign banks, 9 Microfinance Banks (MFBs), 2 credit reference bureaus (CRBs), 1 Money Remittance Provider (MRP) and 101 forex bureaus. Out of the 44 banking institutions, 30 locally owned banks comprise 3 with public shareholding and 27 privately owned while 14 are foreign owned. The 9 MFBs, 2 CRBs and 101 forex bureaus are privately owned (CBK, 2014).

Kenya has been recognized internationally for having one of the most progressive, stable and innovative banking sectors in Africa. In fact, Kenya has been envisaged as East Africa's Financial Services Hub. This achievement has been realised over time through collective effort of banks and a supportive regulatory environment. The banking sector in Kenya is licensed and regulated by the Central Bank of Kenya (CBK). Banks through the Kenya Bankers Association (KBA) promote self-regulation through the various processes and initiatives that are overseen by the Association.

The dynamics of the banking sector have been influenced by globalization. Regulatory, structural and technological factors are significantly changing the banking environment throughout the world leading to intense competitive pressures (Grigoroudis, Politis and Siskos, 2002). Maintaining existing customers for organisations is ever more important than the ability to capture new ones.

The banking industry in Kenya has seen significant growth in the sector policy reforms that has necessitated liberalization, has opened up markets leading significant growth in the sector (Central Bank of Kenya, 2009). Mergers have since developed causing a slight drop in the number of banks (Mburu et al 2013). The increased competition has necessitated significant investment in infrastructure, customer service areas, call centers and IT based cash points. Social changes have also led to changed customer demand. Therefore factors like services, products, prices, image, personnel skills, treatment credibility, responsiveness, waiting time, location and technology are now key. The issue of customer satisfaction is critical for survival.

1.2 Research Problem

Satisfaction is a function of perceived performance and expectation. The term ‘customer satisfaction’ is subjective and non-qualitative term. It results from the quality of banking services product (technical quality), quality of service delivery, engagement of the customers (functional quality) price factors and exceeding customer’s expectations. Expectation influences customer satisfaction through market communication, image, word of mouth and customer needs.

Customers are now becoming increasingly conscious of their rights and are demanding ever more than before (Kim, Ng and Ki, 2009). The changing needs of customers affect the expectation of value added servicing for basic banking requirements. This is made possible only in the post liberalization era through “customer centric” services (Mohammad and Alhamadani, 2011). Besides, retaining unsatisfied customer is elusive as customers can easily switch from one service provider to the next at low cost.

Studies have been done that assess the determinants of customer satisfaction. Kenyan studies such as Bashir, Machali and Mwinyi (2012) looked at the effect of service quality on customer satisfaction in MFIs. Yator (2012) focused on the effect of service quality on customer satisfaction in Lake Bogoria SPA resort. Mbuthia, Muthoni and Muchina (2013) focused on the hotel service quality, perceptions and satisfaction among domestic guests. Globally studies have been done on: customer satisfaction in the restaurant industry (Andaleeb and Conway, 2006); the influence of institutional service on customer satisfaction, return intention, and word-of-mouth (Kim, Ng and Ki, 2009); and, service quality perspectives and customer satisfaction.

None of these studies have evaluated customer satisfaction in the context of banking. Thus this study seeks to investigate service quality as a determinant of customer satisfaction in banking.

The study will, thus, answer the following questions: How can customer satisfaction be achieved in the environmental heterogeneity of customer satisfaction? What is the level of customer satisfaction in banking sector in Kenya from the customer's perspective? What are the determinants of customer satisfaction in banking industry?

1.3 Research Objective

The research objectives are:

i. Determine the customer perceived service quality in the banking sector;

ii. Determine customer satisfaction level in the banking sector;

iii. Determine the relationship between service quality and customer satisfaction;

1.4 Value of the Study

The research information will provide vital data to the policymakers and regulators of commercial banks such as Central Bank of Kenya (CBK) and Kenya Bankers Association (KBA) to design new strategies and policies for enhanced services in the banking sector.

The findings of will help management of commercial banks understand how several dimensions of their services/products affects customers' satisfaction, hence customer retention. Study will provide deeper insights into what is needed in order for bank to enhance customers' satisfaction and, thus, allow for improvement in bank strategies to attract and retain their customers. This study will be important for researchers and academicians being that there are limited studies on determinants of customer satisfaction in the banking sector in Kenya. The outcome of this study will be invaluable empirical study and also act as local reference on for future research.

CHAPTER TWO:

LITERATURE REVIEW

2.1 Introduction

This chapter is concerned with the review of pertinent literature. It covers both theoretical and empirical literature. It is structured into: service quality as a concept, gap model, external communication, customer satisfaction measures, and summary and conceptual framework.

2.2 Service Quality

Grönross (1984) stated that quality is judged on the individual’s perception of the service. According to Grönroos , in order to increase long term quality, the customer expectations should be focused, revealed, and calibrated. When customers evaluate service they compare their expectations with what they think they received from the other service providers and if the expectations are met or even exceeded customers believe that the service have high quality.

Customer expectations vary depending on what kind of business the service is connected to. Expectations also vary depending on different positioning strategies of different service providers. Grönroos (1984) proposed evaluation of perceived service quality along technical and functional dimensions. Technical quality is referred to the content of service provided to customer. Functional quality is referred to methods of service execution: treatments reserved to customers by staff, behaviours of the staff and so on; that is, how the service is provided. Grönroos confirmed that quality must be intended as the difference between customer’s expectations and the perceived performance. The customer compares his expectations with his experience of the service, perceived through the filter of the company’s image. That is, the customer evaluation of service quality is based on a comparison, or confirmation rather than disconfirmation, with respect to some comparative term already held in mind by the customer at the pre-service stage.

Amy and Amrik (2003) reinforced Grönroos’ view that customers compare the expected service quality with what they actually receive; that is service quality expectation and perception. Amy and Amrik postulate service quality as dependent on two variables: perceived services customer actually receives form organization and expected services from the customer’s previous experience or overall perception of the service. When expected service is higher than perceived service, service is said to be of low quality and when service expected is less than perceived service, overall service quality is considered to be high. Customer expectations vary depending on what kind of budiness the service is connected to. Expectaions also vary depending on different positioning strategies of different service providers. Amy and Amrik (2003) posit that the expectations are influenced by previous experiences of the service provider, competing services in the same industry or related services in different industries. If the customer don´t have any previous experience they are more likely to base their expectations on word of mouth, news stories or the marketing efforts of the company.

Unlike Amy and Amrik (2003) and Grönroos (1984), Ekinci and Sirakaya (2004) looked at service quality from the perception of angle. Ekinci and Sakaya, thus, defined service quality in four perspectives: excellence, value, conformance to specifications and meeting and/or exceeding expectations. Excellence looks at a services performing its intended purpose. Excellence is extenally defined and as such attributes associated with it changes dramatically and rapidly. Value is the benefit that customer get from using a service. Process and design variation are seen to be a constant thread to achieving conformance to requirements and most technical advances in quality are due to standardization and mass production. However , while standardization or conformance to specifications benefit the customers theorugh reduced prevalence to quality defects, employees are reduced to mere extensions of the machinery. Meeting and exceeding expectations is a dynamic perspective as expectations change and may be shaped by experiences with other service providers.

An array of factors or determinants has been identified in the literature for measuring service quality. For instance, Sachev and Verma (2004) measure service quality in terms of customer perception, customer expectation, customer satisfaction, and customer attitude. Despite the numerous models for measuring service quality, Nyeck et al. (2002) admit that the SERVQUAL model remains as the most complete attempt to conceptualize and measure service quality. Amore in depth justification of the functional quality is reported by Parasuraman 1985 and 1988. The SERVQUAL model by Parasuranam suggested five dimensions: tangibles, reliability, responsiveness, assurance and empathy are the basis for service quality measurement (Parasuramanet al., 1988; Zeithamlet al., 1990).

The tangibles encompass the appearance of the company representatives, facilities, materials, and equipment as well as communication materials. The condition of the physical surroundings is seen as tangible evidence of care and attention to detail exhibited by the service provider (Fitzsimmons & Fitzsimmons, 2001). Davis et al. (2003) summarize tangibles as the physical evidence of the service.

The reliability and consistency of performance of service facilities, goods and staff is seen as important (Johnston, 1997). This includes punctual service delivery and ability to keep to agreements made with the customer. According to Fitzsimmons and Fitzsimmons (2001), reliability is the ability to perform the promised service both dependably and accurately with error free.

Johnston (1997) describes responsiveness as the speed and timeliness of service delivery. This includes the speed of throughput and the ability of the service to respond promptly to customer service requests, with minimal waiting and queuing time. Fitzsimmons and Fitzsimmons (2001) argue that when the customer is kept waiting for no apparent reason creates unnecessary negative perceptions of quality. Conversely, the ability for the bank to recover quickly when service fails and exhibit professionalism will also create very positive perceptions of quality.

This considers the knowledge and courtesy of employees as well as their ability to convey trust and confidence. The assurance dimension includes the following features: competence to perform the service, politeness and respect for the customer, effective communication with the customer and the general attitude that the server has the customer's best interest at heart (Fitzsimmons & Fitzsimmons, 2001).

According to Chase et al. (2001), empathy is the provision of caring, individualized attention to customers. Fitzsimmons and Fitzsimmons (2001) posit that empathy includes approachability, sensitivity, and effort to understand the customer‟s needs. Johnston (1997) describes empathy as the ability to make the customer feel welcome, particularly by the contact staff.

2.4 Customer Satisfaction Measures

This section introduces the descripancies between expectation and perception. Oliver (1997) mentions that customer satisfaction a judgement that a product or service feature, or the product or service itself, provides pleasurable consumption related fulfilment. Satisfaction is not evaluative state but a process extending across the entire consumption horizon. According to customer satisfaction paradigm, confirmed expectations lead to moderate satisfaction, positively disconfirmed (exceeded standards lead to high satisfaction) and negatively disconfirmed, that is, underachieved standards lead to dissatisfaction.

Oliver (1980) discusses that satisfaction can be understood as the discrepancy between expectations and perceptions. That is, customer's perception that compare their pre-purchase expectations with postpurchase perception. Oliver (1997) identifies five different types of satisfaction which are pleasure, relief, novelty and surprise. The extent of satisfaction or strength of the pleasure felt depends on: preferences (ability of offer to meet customer’s needs), price (perceived overall value of the offer) and performance (difference between expected benefits and actual benefits received).

Gibson (2005) divided customer satisfaction into four categories: a cognitive concept to be rewarded for the consumers through payment; evaluation on the accord of prior expectation with alternatives of the selection; affective response after purchase; and, judgments influenced by both emotional responses and cognitive disconfirmation. Oliver (1997) suggests that disconformation of expectations is present when the satisfaction mode is pleasure, relief or surprise. That is, performance of a product or service meets the expectations of the purchaser. Gibson (2005) viewed satisfaction as an antecedent of attitudinal brand loyalty, with increases in satisfaction leading to increases in attitudinal brand loyalty. Gibson found satisfied customers become repeat purchasers of a product or service and provide positive word of mouth.

From the customer's point of view, service quality is the difference between what they expect and what they perceive to be receiving from the service provider. This difference creates gaps between expectation and the actual service received. Five gaps have been identified. Gap 1 is between customer expectations and management's perception of these expectations. Gap 2 is the difference between management's perception of customer expectations and the translation of those perceptions into service quality specifications. Gap 3 is the difference between the service quality specifications and the delivery of those specifications to the customer. Gap 4 is the difference between the service delivered to customers and the external communications about the service. Gap 5 is the difference between customers' perceptions of an actual service experience and the customers' expectations of an ideal service (Parasuraman, Zeithaml and Berry, 1985).

Although all five gaps may hinder an organization in providing high quality service, the fifth gap is the basis of a customer-oriented definition of service quality that examines the discrepancy between customers' expectations for excellence and their perceptions of the actual service delivered. Gaps model recognizes that expectations are subjective and are neither static nor predictable . When the perceptions are greater than expectations, then perceived quality is very good; when they are equal, perceived quality is good; but if expectations exceed perceptions, the perceived quality is less than satisfactory. Thus, judgements of high and low service quality depend on how customers perceive the actual service performance in the context of what customers expect (Sadeghi and Bemani, 2011).

2.5 Summary and Conceptual Framework

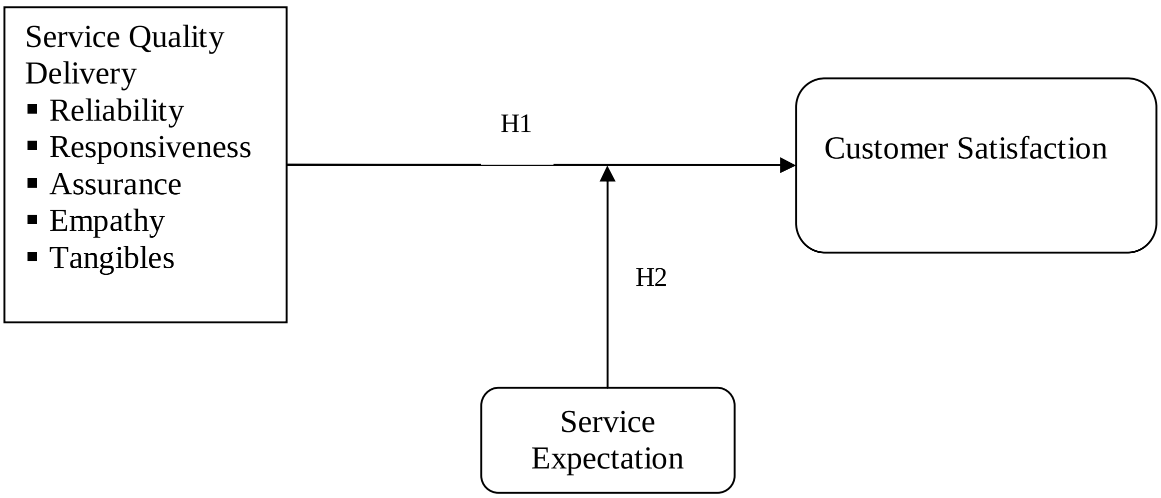
This chapter looks at the antecedents of customer satifaction which are service quality delivery, quality perception as moderated by service expectation and communication. Service quality is perceived services customer actually receives form organization which must meet or exceed expected services from the customer's previous experience or overall perception of the service. It is judged from the service: excellence, value, conformance to specifications and meeting and/or exceeding expectations. As presented in this chapter, external communication to the customers is often the basis that customers derive their service expectations which would determine the satisfaction with service delivery. It can affect the customers' perceptions of delivered service and also their expectations about the service. Gap model is used to demostrate the integrated view of the perception gap and contributory factors. That is, expected service is a function of communication, personal need and past experience, and perceived service is a product of service delivery and external communications to consumers. This leads to the conceptual framework presented in Figure 2.1.

From the conceptual model, perceived service is resultant from service quality delivery by a firm. Customer satisfaction level is predicated on the service quality delivery as perceived by the customer based on their service expectations. When the perceptions meet expectations then the customers is satisfied. When the perceptions exceed expectations then the customers become highly satisfied. When the perceptions are lower than expectations, the customers become dissatisfied. However, service expectations are derived from the firms' external communication to the customers about their services. Thus, the study makes the following prepositions:

H1: Service quality delivery is significantly associated with service perception

H2: Service expectations significantly mediate with relationship between service perception and customer satisfaction

H3: External communication is significantly associated with service expectations



Independent Variables **Dependent Variable**

Figure 2.1: Conceptual Framework

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methods and procedures that were followed in conducting research. The methodology objective is to test the prepositions that: service quality delivery is significantly associated with service perception; service expectations significantly mediate with relationship between service perception and customer satisfaction; and, external communication is significantly associated with service expectations. The chapter is structured into research design, study population, sample, data collection and data analysis.

3.2Research Design

Research design provided the guideline for data collection. It involved the selection of the research approach. The study employed descriptive research design. Descriptive research describes data and characteristics about the population or phenomena being studied. Descriptive research answers the questions who, what, where, when and how (Mugenda and Mugenda, 2003). It was useful in establishing the determinants of customer satisfaction in commercial banks.

3.3 Study Population

Target population is the population which the researcher wants to generalize the results of the study (Mugenda and Mugenda, 2003).The target population of the study was customers of the commercial banks in Kenya. There are currently 44 commercial banks which formed the unit of analysis (CBK, 2014). Thus, targeted population for this study was individuals who operate current or saving account in the commercial banks, age 18 years and above.

3.4 Sample

The study used stratified sampling technique in coming up with the study's sample. This owes to the fact that, to ensure representation, customers had to be taken from each commercial bank, giving rise to heterogeneous population. According to Mugenda and Mugenda (2003), when population members vary (heterogeneous), it is advantageous to sample each subpopulation (stratum) independently by dividing members of the population into homogeneous subgroups (individual banks) before sampling. This ensures that each subgroup (customers of each bank) is selected for the study.

The study used single proportion method for sample size determination as it estimates with a high level of precision (Ahmad, Amin, Aleng and Mohamed, 2012). The formula for sample size calculation is:

$$n = \left(\frac{z}{\Delta}\right)^2 p(1 - p)$$

Where n = sample size, z is the confidence level which is 95% for the study; Δ is the absolute precision (5%); and, p is the expected proportion of individual in the sample with the characteristic of interest (banks' customers). According to the National Financial Access 2013 Survey, while 66.7% of the Kenyan population uses some form of financial services, it is 32.7% that are banked. Thus, the aggregate sample for this study is 338. Using the formulae, from each commercial bank, 7 customers were being selected randomly making the sample size.

3.5 Data Collection

The study gathered primary data. The primary data was gathered through questionnaires as they guarantee confidentiality; respondents act without any fear or embarrassment as is the case of interview. The questionnaires were designed to address the research objective. The first section of the questionnaire inquired about the general information about the respondents. The rest of the sections dealt with the determinants of customer satisfaction. as postulated by Grönroos (2007).Service quality was addressed by indicators such as tangibility, reliability, responsiveness, assurance and empathy. Service perception and expectation gap was measured by the customer opinion on whether their expectations are confirmed, affirmed or disconfirmed (Amy and Amrik, 2003). Customer satisfaction was measured by recommendation to others, loyalty; pleasure (Oliver, 1997). The customers were asked by give their opinion on the aforementioned dimensions or indicators using a Likert scale and semantic rating.

3.6 Data Analysis

After data collection, questions were coded and entered into Statistical Package for Social Sciences then analysis run. The data was analyzed using of descriptive statistics for quantitative data. Descriptive statistics involves that use of frequencies, percentage, mean and standard deviation. The study used multiple regression analysis to test the prepositions and draw inferences on the determinants of customer satisfaction. To test whether service quality delivery is significantly associated with service perception, the regression model was:

$$SP = \beta_0 + \beta_1 SQD + \varepsilon$$

Where SP is service perception, β_0 is regression constant, β_1 is regression coefficient, SQD is service quality delivery and ε is error term.

To test whether service expectations significantly mediate with relationship between service perception and customer satisfaction, the mediated regression model was:

$$SAT = \beta_0 + \beta_1 SP + \beta_2 M + \varepsilon$$

Where SAT is customer satisfaction, β_0 is regression constant, β_1 and β_2 are regression coefficient, SP is service perception and M is the mediator variable which will be the service expectation. Quantitative data will be presented in tables, bar graphs and pie chart, while explanation to the same will be presented in prose.

The study used the regression coefficients to test the magnitude of the relationship between dependent and independent variables. The study applied f and t-significance from ANOVA to establish the significances of such relationship. The study used Pearson correlation coefficient to test the preposition that service quality has significant relationship with customer satisfaction. A correlation coefficient values ranging between -1 and 1 which measures the degree to which two variables are linearly related with the higher magnitude indicating higher degree of association between two variables. According to Rohlf and Sokals' (1995) critical values for the correlation coefficient, using 330 degrees of freedom a critical value for correlation is 0.376 at 0.05 error margin.

3.7 Validity and Reliability

The pilot study was done on 30 commercial banks customers who were not be included in the final study.The study used both content and construct validity to ascertain the validity of the questionnaires.As a check on face validity, questionnaire items were sent to the pilot group to obtain suggestions for modification. The content and construct validity was also be ensured by seeking the opinion of the lecturers on the suitability of the questionnaires.

Reliability of the questionnaire was evaluated through administration of the said instrument to the pilot group. A construct composite reliability co-efficient (Cronbach alpha) was used to test the reliability of the research instrument. Cronbach Alpha value of 0.7 or above, for all the constructs, was considered adequate for this study.

CHAPTER FOUR

RESULTS AND DATA ANALYSIS

4.1 Introduction

This chapter presents findings and analysis of the study as set out in the research methodology. The study findings are presented to establish the determinants of customer satisfaction in banking sector in Kenya. The data was gathered using questionnaires as the research instrument. The questionnaire was designed in line with the objectives of the study.

4.2 RESULTS

4.2.1 Response rate

The research sought to find out the actual number of the respondents who filled and completed the questionnaires. Lucey (1996) defines the response rate as the extent to which the final data set includes all sample members and it is calculated as the number of people with whom questionnaires were issued and completed divided by the total number of people in the entire sample, including those who refused to participate or filled them partially.

The study targeted 338 respondents from different commercial banks in collecting data and 291 of them completed the questionnaires. This constitutes 86.09% response. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This means that the response rate for this study was excellent and therefore enough for data analysis and interpretation. This is as indicated in the table below.

Table 1: response rate

Response rate	Frequency	percentage
Response	291	86.09
Non – response	47	13.91
Total	**338**	**100**

Source: Bitta MA, 2014

4.2.2 Validity Test

The questionnaires used had likert scale items that were to be responded to. For reliability analysis Cronbach's alpha was calculated by application of Statistical Package for Social Sciences (SPSS). The value of the alpha coefficient ranges from 0 to 1 and may be used to describe the reliability of factors extracted from dichotomous and/or multi-point formatted questionnaires or scales (i.e., rating scale: 1 = poor, 5 = excellent).

A higher value shows a more reliable generated scale. Cooper & Schindler (2008) indicated 0.7 to be an acceptable reliability coefficient. Since, the alpha coefficients were all greater than 0.7, a conclusion was drawn that the instruments had an acceptable reliability coefficient and were appropriate for the study.

Table 2: Reliability Results

Variable	Cronbach's Alpha	Items
Service quality	.79	9
Service perception	.77	15
Service expectations	.78	3

Source: Bitta MA, 2014

4.3. Gender of respondents

The table displays demographic information according to gender.

Table 3: Gender of the respondents

Gender	Frequency	Percentage
Male	189	64.95
Female	102	35.05
Total	**291**	**100.00**

Source: Bitta MA, 2014

The study found it paramount to determine the respondents' gender in order to ascertain whether there was gender parity in the positions indicated by the respondents. The findings of the study are as shown in table 3. According to the analysis it was evident that majority of the respondents were male which represented 64.95% while 35.05% were female. It can therefore be deduced that males were the most dominant gender in the commercial banks of Kenya.

4.4 Age Bracket of the respondents

The study sought to determine if the respondents were old enough to provide valuable responses that pertain to the service quality and customer satisfaction in the banking sector in Kenya

Table 4: Age Bracket of the respondents

Age Bracket	Frequency	Percentage
18 – 25 years	37	12.71
26-35 years	52	17.87
36-45 years	71	24.40
46-55 years	69	23.71
Over 55 Years	62	21.31
Total	**291**	**100**

Source: Bitta MA, 2014

The respondents were required to indicate their age where the study findings showed that majority (24.40%) were between 36-45 years. Analysis of findings also indicated that 23.71% of the respondents were between 46-55 years of age. The findings further indicated that 21.31%

were Over 55 Years. While the remaining 17.87 % indicated that they were 26-35 years and lastly 12.71% of the respondents were 18 – 25 years. The finding therefore implies that the respondents were old enough to provide valuable responses that pertain to the determinants of customer satisfaction in banking sector in Kenya.

4.5 Determinants of customer satisfaction

The study sought to find out the determinants of customer satisfaction. Statements below are indicators of the determinants of customer satisfaction with banks' services. The respondents were required to rank the indicators on a scale 1-5(minimum to maximum) to reflect their feelings and the extent to which they agree with the statements.

Construct	Mean	Std. deviation
When the bank promises a certain service by a certain time, it does so	4.13	1.137
When customers have a problem, the bank shows sincere interest in solving it	4.11	1.229
My bank delivers its services promptly at the time it promises to do so	3.97	1.393
My bank always performs the service right the first time	3.51	1.384
The bank employees tell me exactly when services will be performed	2.37	1.374
The bank employees give me a prompt service	3.64	0.788
The bank employees are always willing to help me	3.97	1.417
The bank employees are never too busy to respond to my requests	4.12	1.362
The employees instil confidence in customers	3.68	1.317
Customers feel safe in transactions with the bank	4.31	1.343
The employees are consistently courteous with customers	4.17	1.414
The employees have knowledge to answer customers' questions	4.23	1.03
The bank employees give customers individual attention	3.87	1.137
The bank has customers' best interest at heart	4.19	1.229
The employees understand customers specific	3.91	1.393

needs		
My bank provider has operating hours and location convenient to all its customers	3.73	1.384
The employees give off their personal attention	3.41	1.374
The staff members can clearly explain the various options available to a particular query	3.88	0.788
The staff avoids using technical jargon when speaking to clients	3.77	1.417
The Banks staff do not over-promise delivery or service quality	2.71	1.362
Advertisements and promotions are not at variance with the actual service experience	3.52	1.317
The bank keenly listens to customers and take appropriate action making me feel valued	4.15	1.343
My bank always delivers excellent overall service	3.90	1.414
The services offered by my bank are of high quality	4.01	1.03
My bank delivers superior service in every way	3.95	1.147
Interest rates on short, medium and long term loans are reasonable compared to other banks	3.96	1.239
Foreign currency pricing and trading by my bank is reasonable compared to other banks	3.92	1.193
Costs of maintaining account with the bank is low compared to other banks	3.62	1.364
Interest earned on fixed term deposits are high compared to other banks	3.51	1.394
Bank charges on domestic banking are low compared to others	3.93	0.888
I will continue to patronize this bank even if the service charges are increased moderately	2.11	1.427
I will keep patronizing this bank regardless of everything being changed somewhat	2.37	1.362
I am likely to pay a little bit more for using the services of this bank	2.91	1.517
To me, this bank would rank first among the other banks	3.83	1.443
Repeatedly, the performance of this bank is superior to that of competitor’s one	4.29	1.314
I am completely satisfied with the services delivered by my bank	3.71	1.037
I feel very pleased with services offered by my bank	3.63	1.157
I feel absolutely delighted with my banks services	3.81	1.219
I would like to remain as a customer of my present bank	3.98	1.493

I would like to recommend my bank to friends and people I know	3.97	1.374
I will say positive things about my bank to other people	3.71	1.574
I would like to keep close relationship with my bank	4.52	0.738
I consider myself to be loyal to my bank	4.25	1.217

4.6 Inferential statistic

Correlation analysis was used to measure the direction and strength of the relationship between independent variables, that is, service quality delivery – Reliability, Responsiveness, assurance, empathy and tangibles. Regression analysis established the relative significance of each of the variables on customer satisfaction.

4.6.1 Correlation Analysis

The Pearson correlation coefficient is a measure of the strength of a linear association between two variables and is denoted by ‘r’. The Pearson correlation coefficient, r, can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association, that is, as the value of one variable increases so does the value of the other variable. A value less than 0 indicates a negative association, that is, as the value of one variable increases the value of the other variable decreases.

Table 5: Correlation coefficient matrix

	service quality delivery	service perception	service expectations	Customer satisfaction
Service quality delivery	1			
Service perception	0.8345	1		
Service expectations	0.3507	0.6679	1	
Customer satisfaction	0.9567	0.8579	0.8123	1

The study in table 5, show that all the predictor variables were shown to have a positive association between them at a significant level of 0.05 and hence included in the analysis. There was strong positive relationship between the independent and the dependent variables. The correlation between service quality delivery and service perceptions was 0.8345, the correlation between service quality delivery and service expectations was 0.3507 and lastly the correlation between service perception and service expectations was 0.6679.

4.6.2 Linear Regression Model

Analysis in table 6 shows that the coefficient of determination, R^2, equals 0.843, that is, service quality delivery, service perception and service expectations is 84.3% of observed change in customer satisfaction. The P- value of 0.000 (Less than 0.05) implies that the regression model is significant at the 95% significance level.

Table 6: Regression model for customer satisfaction

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.918(a)	.843	.805	.51038	.843	1.242	4	96	.000

a. *Predictors*: (Constant), service quality delivery, service perception, and service expectations.

The Analysis of Variance (ANOVA) was used to check how well the model fits the data. The results are presented in table 7.

Table 7: ANOVA (Analysis of Variance)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.045	2	.123	.678	.0025
	Residual	5.102	28	.177		
	Total	6.147	30			

The F statistic is the regression mean square (MSR) divided by the residual mean square (MSE).Since the significance value of the F statistic is smaller than say 0.05, that is, 0.0025 then the predictor variables, service quality delivery, service perception and service expectations explain the variation in the dependent variable which is customer satisfaction. Consequently, we accept the Hypothesis that all the population values for the regression coefficients are not 0.

The regression output of most interest is the following table of coefficients and associated output:

Table 8: Regression Coefficients results

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.943	0.133	0.127	3.167	0.0025
	service quality delivery	0.9567	0.028	0.158	2.321	0.045
	service perception	0.8579	0.029	0.101	1.257	0.310
	service expectations	0.8123	0.030	0.105	1.594	0.274
a. Dependent Variable: customer satisfaction						

From the Regression results in table above, the multiple linear regression model finally appear as

SP = 0.943 + 0.9567 SQD + 0.028

SE = 0.943 + 0.8579SP + 0.030

SAT = 0.943 + 0.8579SP + 1.9454M + 0.133

The multiple linear regression models indicate that all the independent variables have positive coefficient. The regression results above reveal that there is a positive relationship between dependent variable (customer satisfaction) and independent variables (service quality delivery, service perception and service expectations). From the findings, One unit increase in service quality results in 0.9567 units increase in customer satisfaction. One unit change in service perceptionresults in 0.8579 unit increases in customer satisfaction. One unit change in service expectationsresults 0.8123 unit increases in customer satisfaction. The t statistics helps in determining the relative importance of each variable in the model.

The findings of the study indicate that the respondents agreed with almost all the indicators as being positive determinants of customer satisfaction. Some of the determinants had negative mean indicating that the respondents disagreed with some of the determinants.

4.7 Perception of the banks physical facilities

The technology and equipment used in the bank was indicated as state of the art. 215 out of the 291 respondents ranked it 3 or 4 making a total of 73.9% .Most of the respondents agreed that the technology and equipment used in most of their banks was state of the art as illustrated in the pie chart below.

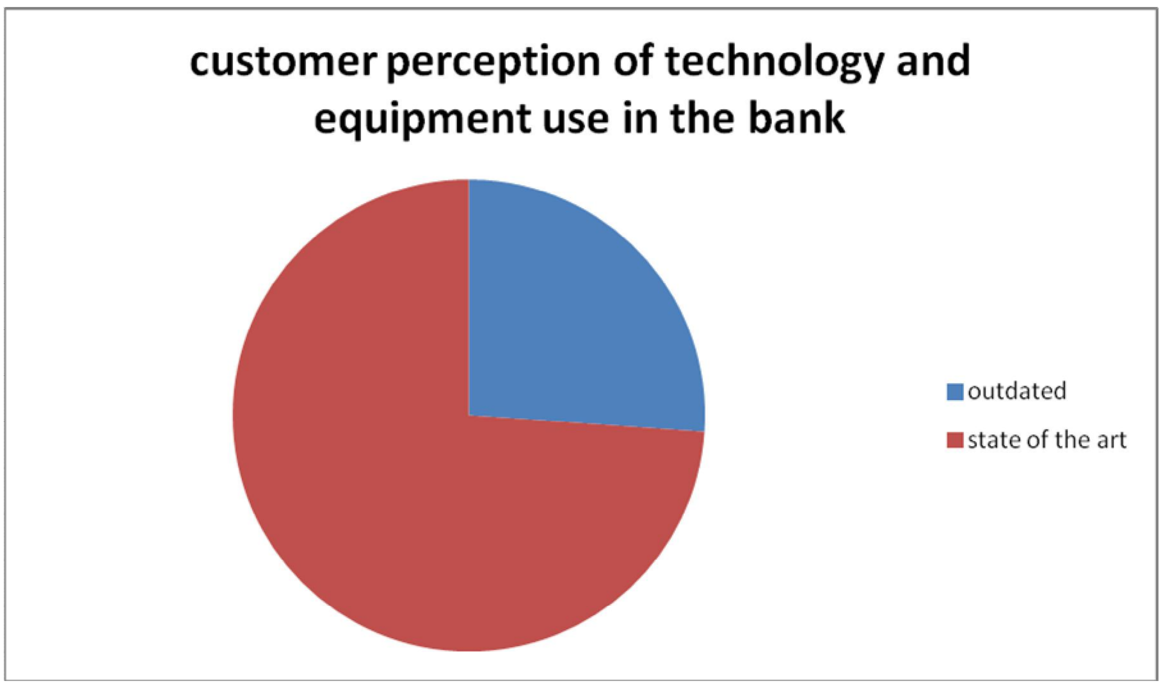


Figure 4.1: A pie chart illustrating customer perception of technology and equipment use in the bank

Regarding the bank's employee dressing code, the researcher found out that most of the employee in the banks always looked smart and presentable .According to the respondent's, (66% ,n= 291)agreed that bank employees' dress code is always smart and presentable.

4.8 Customer satisfaction levels

The customers were given a chance to give their opinion on what they felt needed to be done to increase the level of satisfaction with bank services and products .Reponses were categorized into themes and the following results were obtained:

Amount of time customers spend at the queue had the highest frequency with 157 out of 291 respondents categorically stating that they expect their banks to reduce the time spent serving customers, cost also had the highest frequency with 129 out of 291 respondents categorically stating that they expect their banks to reduce service costs and reduction of the amount of paperwork involved in obtaining credit facilities was mentioned by 98 respondents. The bar graph below illustrates the findings

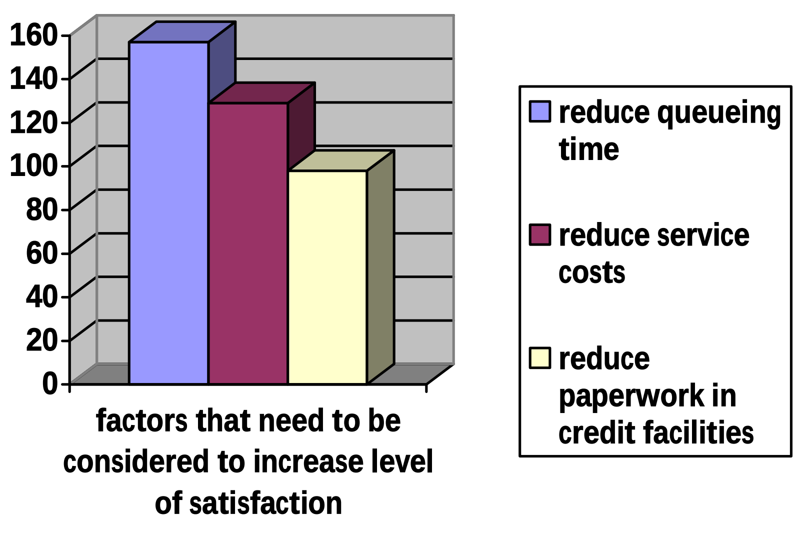


Figure 4.2: A bar graph illustrating factors that customers felt needed to improve to increase level of satisfaction.

CHAPTER FIVE

FINDINGS DISCUSSIONS AND CONCLUSION

5.1 Introduction

This chapter discusses the summary of the findings from chapter four, and also gives conclusions and recommendations of the study based on the objectives of the study.

5.2 Summary

The main objective of the study was to determine the relationship between service quality and customer satisfaction in the banking sector in Kenya. The study specifically focused on the extent to which service quality delivery, service perception and service expectations affects customer satisfaction.

5:3 Quality of service delivery

On average, in a scale of 1 -5 the customers felt that the quality of service be rated as 3.6; it should however be noted that some of the constructs such as the bank employees tell exactly when service will be performed scored a low of 2.37 while the customer feel safe when transacting with the bank scored a high of 4.3. A strong positive relationship 0.9567 between service quality delivery and customer satisfaction was noted. Since the significance of the F statistic is less than 0.05 (value at 0.0025), there is therefore a relationship between customer service quality and customer satisfaction, that is, the hypothesis is accepted.

5:4 Service perception and expectation

On average, Service perception and expectation scored 3.7. A strong relationship between service quality, service perception and customer satisfaction was noted. However the relationship between service quality and service expectation scored a low of 0.3071 and customer satisfaction and service expectation scored 0.667. The linear regression analysis showed an 84.3% change in customer satisfaction as a result of service quality, expectation and perception. An observation that was also strongly supported by Gronroos 2003 that quality is judged on individual's perception of service. Customer satisfaction level is dependent on service quality delivery as perceived by the customer based on service expectations.

5.5 Conclusion

This study has highlighted the significant role customer satisfaction in banks would play in ensuring that customers are retained and financial inclusion is enhanced in the banking sector.

5.6 Policy Recommendations

The Banking industry should establish strong relationship with other stakeholders like the government so as to improve the quality of service delivery. The proposed model of customer satisfaction may be used as a basis to plan efforts towards increasing customer satisfaction. Availability of good service quality delivery, service perception and service expectations will improve the customer satisfaction. The model, although designed in a specific context, may be extended to other similar services and help improve quality of services provided by the banking sector and thus increase overall satisfaction.

5.7 Limitations of the study

The validity and reliability of the study's information, which was obtained from the customers of the different commercial banks, depended on how honest they were. The executive banking sections in all the banks did not allow for administering of questionnaires to clients in those sections therefore an important niche of respondents was left out. The study did not make a distinction between public and private owned banks therefore there may have been confounding variables that affected the findings.

5.8 Areas of further research

Areas of further research that were identified include a similar study to be carried out on other sectors of service provision, A study on the customer satisfaction used in the other sectors of service provision; and lastly the challenges faced in Quality Management implementation in the other sectors of banking. Crucially further research is should be done to determine how customer satisfaction can contribute to organizational performance and financial performance and to what extent can the benefits if any be quantified by the different banks.

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APPENDIX

Appendix I: Questionnaire

I am a Master of business administration (MBA) student of the University of Nairobi. As a requirement, I am carrying a research project on the determinants of customer satisfaction in banking sector in Kenya. As such, the study will be of use to the management of commercial banks and financial institutions in general. Therefore, your maximum co-operation and objective response will go a long way in ensuring that the afore-mentioned research aim is met. I promise that your identity would remain confidential; the findings will be treated with uttermost propriety and that this study would be used solely for academic purposes.

Instructions: (*Please read the instructions given and answer the questions as appropriately as possible*).It is advisable you answer or fill in each section as provided. Make an attempt to answer every question fully and correctly.

SECTION A: GENERAL INFORMATION

1. Kindly indicate the name of your bank:…………………………………………
2. What is your gender:

   Male [ ] Female [ ]

3. What is your age group:

   18 – 25 years [ ] 26-35 years [ ]

   36-45 years [ ] 46-55 years [ ]

   Over 55 Years [ ]

SECTION B: DETERMINANTS OF CUSTOMER SATISFACTION

4. The statements below are indicators of the determinants of customer satisfaction with banks' services. Please rank the following on a scale 1-5(minimum to maximum) to reflect your feelings and the extent to which you agree with the statements.

Construct	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
When the bank promises a certain service by a certain time, it does so					
When customers have a problem, the bank shows sincere interest in solving it					
My bank delivers its services promptly at the time it promises to do so					
My bank always performs the service right the first time					
The bank employees tell me exactly when services will be performed					
The bank employees give me a prompt service					
The bank employees are always willing to help me					
The bank employees are never too busy to respond to my requests					
The employees instil confidence in customers					
Customers feel safe in transactions with the bank					
The employees are consistently courteous with customers					
The employees have knowledge to answer customers' questions					
The bank employees give customers individual attention					
The bank has customers' best interest at heart					
The employees understand customers specific needs					
My bank provider has operating hours and location convenient to all its customers					
The employees give off their personal attention					
The staff members can clearly explain the various options available to a particular query					
The staff avoids using technical jargonwhen speaking to clients					
The Banks staff do not over-promise delivery or service quality					
Advertisements and promotions are not at variance with the actual service experience					
The bank keenly listens to customers and take appropriate action making me feel valued					
My bank always delivers excellent overall service					
The services offered by my bank are of high quality					
My bank delivers superior service in every way					
Interest rates on short, medium and long term loans are reasonable compared to other banks					
Foreign currency pricing and trading by my bank is reasonable compared to other banks					

Costs of maintaining account with the bank is low compared to other banks					
Interest earned on fixed term deposits are high compared to other banks					
Bank charges on domestic banking are low compared to others					
I will continue to patronize this bank even if the service charges are increased moderately					
I will keep patronizing this bank regardless of everything being changed somewhat					
I am likely to pay a little bit more for using the services of this bank					
To me, this bank would rank first among the other banks					
Repeatedly, the performance of this bank is superior to that of competitor's one					
I am completely satisfied with the services delivered by my bank					
I feel very pleased with services offered by my bank					
I feel absolutely delighted with my banks services					
I would like to remain as a customer of my present bank					
I would like to recommend my bank to friends and people I know					
I will say positive things about my bank to other people					
I would like to keep close relationship with my bank					
I consider myself to be loyal to my bank					

5. Kindly indicate your perception of the banks physical facilities by ticking the position that effectively described it.

   a. Technology and equipment used in the bank are:

outdated State of the art

-4	-3	-2	-1	0	1	2	3	4

   b. The bank's employee dressing is:

Shabby and Repelling Smart and Presentable

-4	-3	-2	-1	0	1	2	3	4

6. In your opinion, what need to be done to increase your level of satisfaction with the bank service/products?

…………………………………………………………………………………………………
…………………………………………………………………………………………………
………………………………………………………………………

THANK YOU VERY MUCH FOR YOUR TIME