INFLUENCE OF SERVICE QUALITY DIFFERENTIATION STRATEGY ON CUSTOMER LOYALTY IN COMMERCIAL BANKS WITHIN NAKURU MUNICIPALITY

TABITHA WANGARI KIBITHE

A Research Report Submitted to the Graduate School in Partial Fulfillment of the Requirements for the award of Masters in Business Administration Degree of Egerton University.

EGERTON UNIVERSITY

MAY 2012

DECLARATION AND RECOMMENDATION

DECLARATION

I declare that this research report is my original work and has not been presented, either in part or full, in any University.

Signature .... Date 8/05/2012.

TABITHA WANGARI KIBITHE

CM11/0310/07

RECOMMENDATION

This research report has been submitted with our approval as the University Supervisors.

Signature .... Date 9/5/7/2

MR. DANIEL AUKA

LECTURER.

DEPARTMENT OF BUSINESS ADMINISTRATION.

EGERTON UNIVERSITY.

Signature .... Date 8/05/2012

DR. MAINA WAIGANJO

LECTURER

DEPARTMENT OF COMMERCE.

KABARAK UNIVERSITY.

Signature .... Date 9. 5. 12

DR. JESSE MWANGI

LECTURER.

DEPARTMENT OF MATHEMATICS.

EGERTON UNIVERSITY.

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DEDICATION

This research project is dedicated first and foremost to God Almighty for His Grace and Mercy and to my parents; Mr Joseph Kibithe and Mrs. Damaris Irungu for their support. This work is also dedicated to my sister for her encouragement and patience throughout the time of writing the research report.

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ABSTRACT

In the modern customer centric competitive arena, service quality and customer loyalty prove to be key factors reciprocally interrelated in a causal, cyclical relationship. Bank services are very similar and yet differentiable. Empirical evidence points to the influence of service quality differentiation on customer loyalty in developed countries. However, there is still need for extension of these studies to the developing countries, especially in Africa. The purpose of this study was to determine the influence of service quality differentiation strategy on customer loyalty in commercial banks within Nakuru Municipality. The study had five specific research objectives: to determine the influence of service environment on customer loyalty; to find out the influence of interaction quality on customer loyalty; to establish the influence of empathy on customer loyalty; to determine the influence of reliability on customer loyalty and to determine the composite influence of service environment, interaction quality, empathy and reliability on customer loyalty in commercial banks within Nakuru Municipality. The study adopted a descriptive survey design and employed purposive sampling technique in the identification of the banks and systematic random sampling in the selection of the respondents. The study sample was drawn from customers of banks that had operated in Nakuru Municipality for more than five years. A representative sample of 384 bank customers was chosen and the process of data collection was conducted over a period of one month. The study used a questionnaire for data collection. Data collected was analyzed for descriptive statistics and inferential statistics (correlation and regression) using Statistical Package for Social Sciences (SPSS) computer software version 15. Research findings were presented in the form of tabular summaries. The significance level used for the study was 0.05. The results revealed that most bank customers agreed that banks used the service quality differentiation strategy dimensions and they also agreed with the aspects of customer loyalty as being present among most customers. Results also revealed that service environment was not significantly related to customer loyalty while interaction quality, empathy and reliability were significantly negatively correlated with customer loyalty. The study concluded that service quality differentiation dimensions influenced customer loyalty significantly yet negatively. The study recommended that bank managers should change the application of the service quality differentiation dimension and they should also differentiate on aspects that increase customer loyalty. The study recommended that similar studies should be carried out in other parts of the country and in different sectors of the economy; and that factors that affect customer loyalty that are not discussed in the study should be researched on.

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ABBREVIATIONS AND ACRONYMS

ATM	Automated Teller Machine
CL	Customer Loyalty
CS	Customer Satisfaction
E	Empathy
IMF	International Monetary Fund
IQ	Interaction Quality
SE	Service Environment
SPSS	Statistical Package for Social Sciences
SQ	Service Quality
R	Reliability

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

In service industries globally, service quality remains critical as businesses strive to maintain a competitive advantage in the marketplace. Businesses in the service industry need to focus on service quality differentiation dimensions for their survival, and growth amidst a dynamic and competitive business environment. This situation is aggravated by forces such as globalization and its associated technologies, thus service oriented businesses, including banks have to use sustainable competitive strategies such as service quality differentiation strategy. Currently, technological changes are causing banks to rethink their strategies for services offered to customers (Bloemer, Ruyter & Peeters, 1998). Banks compete in the marketplace with generally undifferentiated products, and service quality becomes a primary competitive weapon (Stafford, 1996). Structural changes have resulted in banks being allowed a greater range of activities, enabling them to become more competitive against non-bank financial institutions (Angur, Nataraajan & Jaherea, 1999).

The period between 1980-1985 was a period marked by the deregulation of the service industries in Europe and North America and many service firms began facing fierce competition coupled with high customer expectations .This high service quality became vital for the survival of these firms .Customer satisfaction was a very prominent topic and models such as the GAP model was developed to help measure service quality so as to enable service providers attain customer satisfaction. However, today customers demand greater service quality and banking services, which are vital to the economic sustainability. In recent times, the business environment has changed and become more receptive to service quality because services have become more important to companies and many countries now have the service sector as the highest employer and contributor to the Gross Domestic Product (GDP). Between 1990 and 1992, 20 books and more than 150 scholarly papers and journal articles were published on the general topic of services marketing with a number of them in top marketing journals (Brown, Churchill & Peter, 1993). This increase in the awareness of service quality and increase in competition have pushed companies to strive to increase quality to meet customers' expectations.

Drucker (1991) defines service quality as "what the customer gets out and is willing to pay for" rather than "what the supplier (of the service) puts in". Hence, service quality is often "conceptualized as the comparison of service expectations with actual performance perceptions" (Kara, Lonial, Tarim & Zaim, 2005). Businesses seeking to foster customer loyalty are, thus, advised to monitor and make improvements to service quality on an ongoing basis (Gerrard & Cunningham, 2005). According to Karatepe, Osman, Yavas & Babakus (2005), the dimensions of service quality are service environment, interaction quality, empathy and reliability. Empirical evidence shows that these dimensions are largely used in the service industry for the purpose of fostering customer loyalty. Service environment encompasses physical appearance of bank facilities (interior and exterior), spaciousness of banking hall , and dressing of the bank; whereas interactive quality includes aspects of employees' warmth, courtesy, pleasantness, politeness and meeting customers requests quickly; while empathy includes customizing of services, individualized attention and problem solving; and lastly reliability is the ability to perform the promised service dependably and accurately (Magesh, 2010).

Maintaining customer loyalty is one of the essential elements determining a company's success or failure (Reichheld & Sasser, 1990). Developing and maintaining customer loyalty or creating long-term relationships with customers is the key to the survival and growth of service firms (Kandampully, 1998). In modern competitive environments, services are gaining increasingly more importance in the competitive formula. Globalized competition has stressed the strategic importance of service quality and customer loyalty, in the battle for winning consumer preferences and maintaining sustainable competitive advantage. In the service economy especially, these prove to be key factors reciprocally interrelated in a causal, cyclical relationship. Service quality is an antecedent to customer loyalty; that is the higher the service quality, the more satisfied and loyal the customers are (Petruzzellis, D'Uggento & Romanazzi, 2006). Poor service quality is one of the main reasons why customers switch to competitors (Philips & Hazlett, 1997). Service quality dimensions are critical to the performance and survival of service oriented businesses, due to related gains of resultant customer loyalty. This provides the business with a competitive advantage over its competitors in the industry. However, there is little empirical evidence in the banking sector; hence this aspect needs to be investigated (Zeithaml, Berry & Parasuraman, 1996).

Kandampully (1998) argued that the ability of a service organization to create, maintain and expand a large and loyal customer base over a longtime horizon is critical to achieve and sustain a winning position in the marketplace. In any business, customer loyalty is a major contributor to an organization's competitive advantage. It is generally recognized that there are linkages between service quality, customer satisfaction and loyalty (Caruana, 2002). Customer loyalty is considered to be "the feelings of attachment to or affection for a company's people, products or services". These feelings manifest themselves through many forms of customer behavior that will eventually reflect on the bottom line of business organizations. Hence, customer loyalty is reflected through numerous behavioral outcomes, not only repurchase behavior (Maggi, 1999). By identifying the antecedents of customer loyalty and understanding the impact of these antecedents on customer loyalty, service providers can set in practices that enhance the service quality dimensions, potentially resulting in higher levels of customer loyalty.

In Africa, players in the service industry especially those in the banking sector face the challenges brought about by the pressures of globalization and competition from non-banking financial institutions, thus, are constantly seeking new ways to add value to their services. The practice by most banks in African countries is inclined towards ensuring that service quality is not compromised amidst competition. In Kenya , due to factors such as increased foreign investment, technological advances and changing customer preferences in the banking sector, there is high competition, hence the need for banks to use appropriate strategies to gain competitive advantage in the industry. Ruyter & Peeters (1998) states that competition in the banking sector has made banks to adopt the service quality differentiation strategy so as to foster customer loyalty. In the context of the banking sector, commercial banks that differentiate their service quality in terms of service environment, interaction quality, empathy and reliability gain a competitive advantage over other players in the industry. This study sought to examine the influence of service quality differentiation strategy on customer loyalty.

1.2 Statement of the Problem

There is evidence that supports the proposition that service quality is an important determinant of customer loyalty in the service industry. In other words, the banking industry is largely a service industry, where service quality has great influence on customer loyalty (Ennew & Binks, 1996; Beerli, Martin & Quintana, 2004; and Lam & Burton, 2006).The economic growth that is being experienced in Kenya and specifically in Nakuru has led to an increase in economic activities. These economic activities require banking services thus Nakuru Municipality has been experiencing an increase in the number of commercial banks, which has resulted in stiff competition amongst the banks, consequently prompting the usage of service quality differentiation strategy. Despite the use of service quality dimensions (service environment, interaction quality, empathy, and reliability), customer loyalty is still a challenge, since there is a strong mobility of customers shifting from one bank to another (Hull, 2002). It is therefore, not known how each dimension of service quality differentiation strategy influences customer loyalty in banks in Nakuru Municipality. This study therefore seeks to determine the influence of service quality differentiation strategy on customer loyalty.

1.3 Objectives of the Study.

1.3.1 General Objective

The general objective of the study was to determine the influence of service quality differentiation strategy on customer loyalty in commercial banks within Nakuru Municipality.

1.3.2 Specific Objectives

The specific objectives were to:

i. To determine the influence of service environment on customer loyalty in commercial banks within Nakuru Municipality.
ii. To establish the influence of interaction quality on customer loyalty in commercial banks within Nakuru Municipality.
iii. To establish the influence of empathy on customer loyalty in commercial banks within Nakuru Municipality.
iv. To determine the influence of reliability on customer loyalty in commercial banks within Nakuru Municipality.
v. To determine the composite influence of service environment, interaction quality, empathy and reliability on customer loyalty in commercial banks within Nakuru Municipality.

1.4 Research Hypotheses.

H_01: There is no significant influence of Service environment on customer loyalty in commercial banks within Nakuru Municipality.

H_02: There is no significant influence of Interaction quality on customer loyalty in commercial banks within Nakuru Municipality.

H_03: There is no significant influence of Empathy on customer loyalty in commercial banks within Nakuru Municipality.

H_04: There is no significant influence of Reliability on customer loyalty in commercial banks within Nakuru Municipality.

H_05: There is no single independent variable that significantly influences customer loyalty in commercial banks within Nakuru Municipality.

1.5 Significance of the Study.

This study was important since its findings would help commercial banks in Nakuru Municipality to understand the place of service quality dimensions and how they influence customer loyalty. Interested stakeholders (the Government of Kenya, Central Bank of Kenya and shareholders) would also find this study of great interest especially in designing policies and products / services that would enhance the growth of the banking sector. Customers would experience better service and become more discerning. The study findings could trigger future investigative studies relative to the service quality dimensions and customer loyalty.

1.6 Assumptions of the Study

Respondents gave honest responses to items that are reflected in the questionnaire to enable the researcher to reach valid conclusions and that the information obtained from the respondents was representative of the entire study population, hence, enabling generalization of the findings.

1.7 Scope of the Study

This study was limited to customers of commercial banks in Nakuru Municipality. The bank customers' population was selected, since they were the subject of the study.

1.8 Limitations of the Study

People are always sensitive to issues concerning finances and personal matters; therefore, they were reluctant to provide required data or provided misleading information. To overcome this, the respondents were informed of the purpose of the study and also assured of confidentiality of the information provided.

1.9 Operational Definition of Terms

Customer: Buyer of the bank's products and services.

Customer Loyalty: Customer's commitment to the bank's products and services as a result of established relationship with the bank.

Customer Satisfaction: State felt by a customer who has experienced a service that has fulfilled their expectations.

Differentiation: Developing services that offer attributes valued by the customer and that are unique and perceived to be better than or different from those of other commercial banks.

Empathy: Degree to which bank's services' are tailored to meet the needs of the customers.

Interaction quality: Attitudes and behaviors of the service providers and their interaction style with customers.

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Empathy: Degree to which bank's services' are tailored to meet the needs of the customers.

Interaction quality: Attitudes and behaviors of the service providers and their interaction style with customers.

Reliability: Ability of the bank to perform the promised service dependably and accurately.

Service Environment: This is the physical appearance of bank facilities.

Service Quality: Comparison customers make between their expectation about a service and their perception on the way the service has been performed.

Strategy: Tactics used by commercial banks to gain competitive advantage over their competitors.

CHAPTER TWO
LITERATURE REVIEW

2.1 The Concept of Competitive Advantage

One of the main objectives of every firm is to achieve and maintain competitive advantage (Richard, 1985). Most companies want to attain their own business competitive advantage, which is considered as the heart of a firm's performance in competitive markets. Since the terminology "competitive advantage" appeared in Porter's book, the term has been distributed throughout marketing, management, economic and human resource publications (Flint, 2000). Barney (1991) gave an explicit definition of competitive advantage. It stated that a firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors. A firm is said to have a sustained competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy.

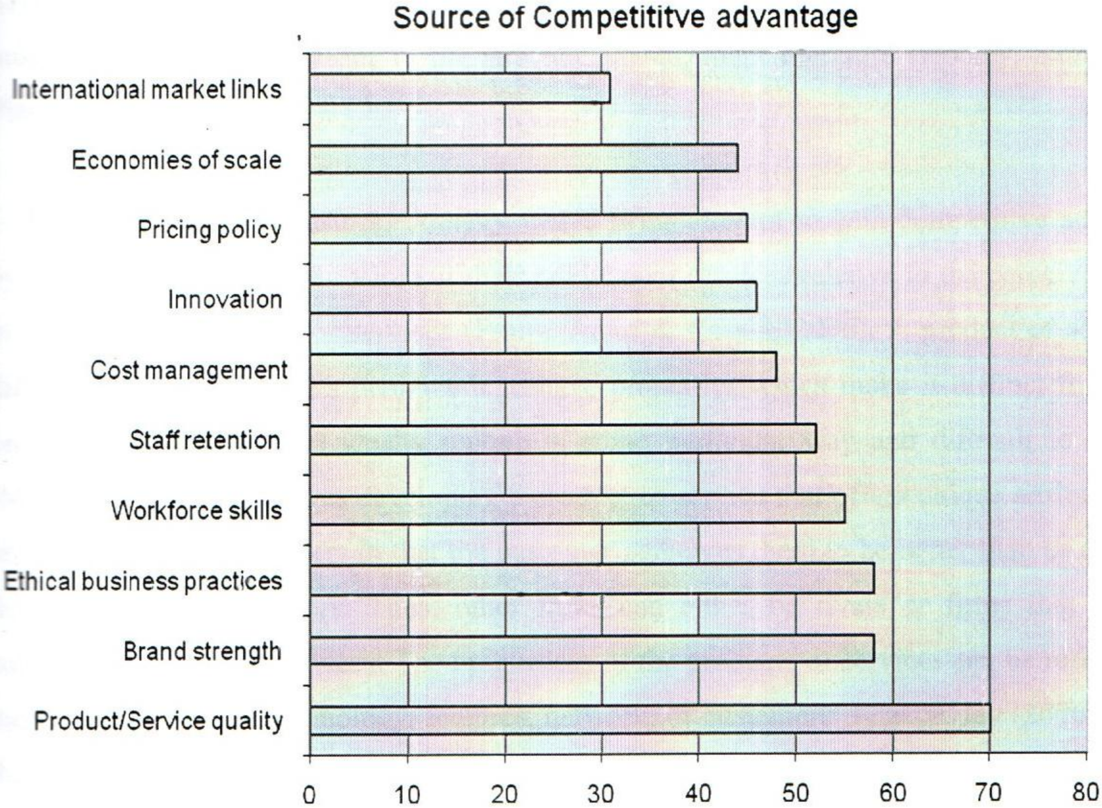
Due to the complexity of competitive advantage, and the social as well as economical impacts from its related activities, different scholars and institution in the world have done researches, amendments or re-definitions on "competitive advantage". Porter (1980) defined competitive advantage as the ability gained through attributes and resources to perform at a higher level than others in the same industry or market. Clulow, Gerstman & Barry (2003) contributes that a firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player. Mitch (2008) states clearly that any business with a competitive advantage is able to attract more customers than its competitors by having some special factor that no one else possesses. Competitive advantage refers to a set of factors or capabilities that allows firms to consistently outperform their rivals (Roberts, 2002).

2.1.1 Service Quality as a Source of Competitive Advantage

It is clear that when a firm has a competitive advantage it is able to attract more customers than its competitors by having some special factors that no one else has. The most important thing for a firm is to find out what the customers want and find a suitable channel to give it to them. Actually, it is all about how to differentiate the products and services from the competitors. Mitch (2008) six popular sources of competitive advantage are cost, quality, service, brand, innovation and convenience. Cost was considered for a long time as the major source of competitive advantage, but not anymore since the advantage of cost is unable to sustain in the long-term, when the cost of material and human resources go up. Competitors can also keep reducing the cost until it is unprofitable to adopt cost leadership strategy. Quality is taking over as the major source of competitive advantage .Any Company with a better quality product/service that is not too much more expensive than its rivals will win (Mitch, 2008).

According to the International Business Report, produced by Grant Thornton International, the quality of product/service has been considered as the main source of competitive advantage with around 70 per cent global respondents ranking it as a strong or very strong source. Quality might be enough reason for customers to pay more for a bank's service even though the bank's services maybe a little bit expensive, just because of the reputation of good quality. Quality is increasingly becoming a strategic issue. One of the main reasons for the successes of Japanese industry in the 1970s and 1980s was that the Japanese realized early that quality concept should emanate from the requirements and expectations of the customers. This perception played a vital role in bringing about success (Bergman & Klefsjo, 2003). Today service quality has become more vital than ever before because service providers have realized that they have to provide customer-perceived value, if they want to stay in business. As global competition increases, customers have more varieties to choose from and of course service quality will become their priority when spending their money, especially as they try to maximize the value in return as well as satisfaction for every unit of money spent. However, to achieve service quality, it must be measured so that improvements required can be determined and made.

Figure 2.1: Sources of competitive advantage



Sources of Competitive Advantage (Grant, 2008).

Deming (1986) emphasized that quality should be aimed at the needs of the customer, present and future. This implies that the customers of today should be considered as those of tomorrow. Therefore, their needs and expectations must be known by the service producer in order for a service to be redesigned and improved to meet their needs and expectations. To achieve this target, companies or service providers must be able to measure the current service quality of their services as perceived by the customers and then compare it with their expectations. Service quality has become increasingly important to companies and customers in recent times and this trend is rising (Bergman & Klefsjo, 2003).

2.1.2 Service Quality as a Differentiation Strategy

Strategy is first and foremost a broad and complex concept. Porter (1980) states that strategy is the creation of a unique and valuable position, involving a different set of activities .His conception of strategy is that it is a matter of competitive position that a company creates by differentiating themselves in the eyes of its valuable customers .Porter came up with the three generic strategies of cost leadership, differentiation and focus as ways of competing and these strategies are popular research topics within the field of strategy and have been widely discussed. Some rearchers, in fact, refer to this model as being among the most significant contributions to the strategic management literature (Hooley, Saunders & Piercy, 2004).

Differentiation is a business strategy where firms attempt to gain competitive advantage by increasing the perceived value of their products or services relative to the perceived value of other firms' products or services (Fratto, Jones & Cassill, 2006). A product or service is differentiated if consumers perceive it to have properties which make it distinct from rival products or services, and ideally unique in some particular way and difficult to emulate (Murphy, 2007) .It involves developing a product or service that offers unique attributes that are valued by the customers in that the customer perceives them to be better than or different from those of competitors. Thus, other firms can either be rivals or firms that provide substitute products or services. The uniqueness of the products or services can be reflected in design, brand image, technology, features, network, or customers' service. Jay (2006) argues that the major sources of differentiation are: quality, design, sales promotion, differences in availability (e.g. timing and location) and reputation.

The notion of a base of differentiation is important because it allows a firm to focus its efforts on creating and exploiting a particular difference between its products and services and competitors' products and services. Managers need to understand their own bases of differentiation and the bases of differentiation of competitors so that they can make informed strategic choices. Almost anything could be a base of differentiation. The key is that some set of customers must find value in the base of differentiation .Managers can create and exploit bases of differentiation from a seemingly infinite number of ideas (Hooley *et al.,* 2004). The result of a successful differentiation strategy is a loyal customer base. Many organizations today are focusing on becoming more competitive, by launching competitive strategies that give them an edge over others. To do this, they need to craft differentiation strategies (Porter 1985). What can sustain this strategy is the continuing development of differentiated products and services that match customers' needs and preferences and in order to reach that, a company must monitor its customers constantly trying to identify their preferences and understand their behavior, until the point of predicting how they can react to certain product changes. A successful differentiation strategy will move products and services from competing based primarily on price to competing on non-price factors such as quality (Robinson, 1997).

The objective of differentiation is to develop a position that potential customers see as unique based on a certain features that satisfy that class of customers. Andreassen & Lanseng (2010) remarked that differentiating the market offering is critical to a firms success According to Porter (1980) differentiation may generate superior profitability for the reason that it provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price. The resulting customer loyalty and the need for a competitor to overcome uniqueness provide entry barriers. The firm that has differentiated itself to achieve customer loyalty should be better positioned vis-à-vis its competitors.

2.2 Service Quality

To understand the importance of service quality, it is important to understand what a service means. Lusch & Vargo (2004) define services as the application of specialized competences (knowledge and skills) through deeds, processes and performances for the benefit of another entity or the entity itself. Based on this definition, services are viewed as an activity, intangible in nature, which contributes value to consumers. It is highly customer - focused because it is only activated when a customer demands and uses it. This, therefore, makes services to be delicate and sensitive both from the customer and service provider perspective because services are consumed at the very instance of production, thus making mistakes encountered during the service process to be felt immediately by the customer and diminish the value of the service from the perspective of the customer. If mistakes are not made when delivering the service, value is created and this greatly contributes to the customer's satisfaction and it is felt on the spot by the customer whereas with tangibles where customers buy and consume later, failures in the product are not felt on the spot and can therefore be corrected before the customer consumes the product. This is however not possible with services. Based on this major difference, services are viewed as a framework for value creation because it provides a platform on which value can be created.

To understand what Service Quality is, we also need to understand what quality is and it's concept as a whole. Understanding the term "Quality" will reveal that the concept has been defined in many different ways and with different emphasis by the various quality gurus and writers on the subject. Quality is an elusive and indistinct construct. Crosby (1979) defines quality as "conformance to requirement". Requirements must be clearly stated so that they cannot be misunderstood. However, understanding of quality in goods and its significance is not sufficient to understand service quality. According to Bruhn & Georgi (2006) services are processes and have the following characteristics: Services are co-produced by the customer, intangible, perishable, cannot be transported, produced and consumed simultaneously and are heterogeneous (can be very different for each customer).

Parasuraman, Zeithaml & Berry (1985) suggest three attributes of service quality: Service quality is more difficult for the consumer to evaluate than goods quality; Service quality perceptions result from a comparison of consumer expectations with actual service performance and quality evaluations are not made solely on the outcome of a service; they also involve evaluations of the process of service delivery. Service quality is often conceptualized as the comparison of service expectations with actual performance perceptions (Zeithaml, Parasuraman & Berry, 1990). Therefore, service quality has been found to have a profound input on customer satisfaction and loyalty as a whole and is defined as the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed. Service companies are beginning to understand what their manufacturing counterparts learned in the 1980s, that quality does not improve unless you measure customer satisfaction (Reichheld & Sasser, 1990).

2.2.1 Conceptualizing Service Quality

Scholars and practitioners alike recognize that service quality is an elusive construct that is difficult to conceptualize (Smith, 1999). A review of the literature indicates that researchers have generally adopted one of three conceptualizations in their analysis of service quality. The first conceptualization is the Nordic perspective advocated by Gronroos (1984) who came up with the technical and functional quality model, he argues that service quality consists of three components: functional quality, technical quality and image. Functional quality takes into account the manner in which service is delivered, technical quality is concerned with the outcome of the service act, in other words, what the customer receives and image is very important to service firms and this can be expected to built up mainly by technical and functional quality of service including the other factors such as: tradition, ideology, word of mouth, pricing and public relations.

The second conceptualization of service quality relates to the work of Parasuraman *et al* (1985) who put forward that service quality is a function of the differences between expectation and performance along the quality dimensions. They developed a service quality model based on gap analysis. In this model the various gaps visualized were: the customer gap which is when it is not know what customers expect. It occurs when there is a gap between customer expectations and company perceptions of customer expectations. Knowledge gap is characterized by not selecting the right service designs and standards. This is explained when there is a gap between customer-driven design and standards and the management perceptions of customer expectations. Service design and standards gap is when the service provider is not delivering to service designs and standards. It is created when there is a gap between customer –driven service designs and standards and the service delivery. Lastly service performance gap is when the service provider cannot match performance to promises, it's created when there is a gap between service delivery and external communications to customers.

Each gap in the customer experience can be closed through diligent attention from management. The magnitude and the direction of each gap will affect the service quality (Parasuraman *et al.,* 1985). This was refined with their subsequent scale named SERVQUAL for measuring customers' perceptions of service quality (Parasuraman, Zeithaml & Berry, 1988). At this point the original ten dimensions of service quality collapsed in to five dimensions: reliability, responsiveness, tangibles, assurance (communication, competence, credibility, courtesy, and security) and empathy which capture access and understanding/knowing the customers.

Finally, Rust & Oliver (1994) contend that service quality consists of three dimensions: service product (technical quality), service delivery (functional quality), and the service environment. According to Caruana (2002), the perception of service quality is based on the customer's assessment of three dimensions of service encounters, which are the customer-employee interaction, the service environment, and the service outcome.

2.2.2 Dimensions of Service Quality in Banks

The service industries are mostly customer driven and their survival in competitive environment largely depends on quality of the service provided by them. Businesses seeking to improve profitability are thus advised to monitor and make improvements to their service quality on an ongoing basis (Gerrard & Cunningham, 2005).Significant developments in the 21^{st} century have uncovered new dimensions in quality, which provide a solid foundation for understanding service quality.

These developments include the movement from "customer satisfaction" to "delight the customer" as the standard for quality; the movement from "total quality management" to "total quality leadership"; and the movement from defining customers as purchasers of goods to understanding customers (internal and external customers) as users of products and services. After extensive research, Parasuraman *et al.* (1988) found five dimensions customers use when evaluating service quality. They named their survey instrument SERVQUAL. The five SERVQUAL dimensions are: tangibles, responsiveness, assurance, empathy and reliability. Karatepe *et al.* (2005) developed the service quality model for banks. They categorized the dimensions of service quality into four dimensions namely:-service environment, interaction quality, empathy and reliability. This classification highly borrowed from earlier findings by Parasuraman *et al.* (1988). These dimensions will be used for the purpose of this study.

Service environment dimension encompasses: physical appearance of bank facilities (interior and exterior).This refers to if the bank is appealing and visually attractive, equipment, personnel, and communication materials. It looks at the following aspects: if the banking hall is spacious enough, clean, well set and orderly to create the necessary ambience for customer comfort. The staff should be smart and knowledgeable about their tasks, work flow and feedback procedure. This dimension is developed from the tangibility aspect discussed in the SERVIQUAL model. Interaction quality encompasses attitudes and behaviors of the service providers and their interaction style with customers. Bank staff should be warm, courteous, pleasant and willing to help. Information ought to be accurate, timely, and appropriate. Openness and speed of service delivery is very critical in the banking industry. This dimension is restructured from responsiveness and assurance dimensions mentioned in the SERVIQUAL model. The responsiveness dimension has been identified by customers as an element of high-quality service. It measures a company's ability and willingness to provide prompt service when customers have questions/problems and also the willingness to help customers. Assurance dimension relates to the knowledge and courtesy of employees and their ability to convey trust and confidence such as being polite and showing respect for customers.

Empathy is also referred to as personalization. It is the ability to be approachable such as being a good listener. It reflects the degree to which information or service is tailored to meet the needs of the individual. This refers to caring, individualized attention a bank provides to its customers. Each customer is unique and must therefore be treated differently. Zeithaml *et al.* (1990) argue that reliability is considered as the most important dimension with regards to customer loyalty regardless of the service setting. This is the ability to perform the promised service dependably and accurately. Banks have levies and charges on loans, other services, and ATM use. These charges should be reasonable, accurate and stable over time. ATMs operation should be at full service over 24 hours to make the service reliable for the customer. The number of contact points with customers, duration for delivering service like processing cheque, cash deposits, loans and advances on average constitute reliability as a dimension for service quality.

In order to enable banks come up with a strategy, bank management need to understand the service quality dimensions that are used by consumers in selecting banks. If bankers can understand which attributes are used to evaluate a service, they will be better able to manage and influence the customer's evaluations and perception of the offering, thus fostering customer loyalty. Perceived quality of service tends to play an important role in high involvement industries like banking services. Banks have traditionally placed a high value on customers. Dimensionality of service quality might depend on the type of services under study and various attributes which determine customers' perception of service quality in retail banking industry have been looked into (Bahia & Nantel, 2000).

2.3 Customer Satisfaction

Oliver (1980) identified satisfaction and dissatisfaction in terms of the disconfirmation of consumers' expectations. A positive disconfirmation leads to customer satisfaction and a negative disconfirmation leads to customer dissatisfaction. Satisfaction is the consumer's fulfillment response. Bearden & Teel (1983) argue that customer satisfaction is important because it is generally assumed to be a significant determinant of repeat sales, positive word of mouth and consumer loyalty. Anderson, Fornell & Lehmann (1994) point out that customer loyalty is determined to a large extent by customer satisfaction. Boulding, Kalra, Staelin & Zeithaml (1993) found a positive relationship between service quality and repurchase intentions and willingness to recommend which in this study are measures of customer loyalty. Satisfaction is the state felt by a person who has experienced a performance or outcome that has fulfilled his or her expectations. Satisfaction is thus a function of relative levels of expectation and perceived performance.

Customer satisfaction can be defined as when the customer's expectation of the service provided matches his perception of the actual service received (Parasuraman *et al.,* 1985). Customers judge the services provided or the product delivered by making a very subjective value judgment which many times do not reflect reality. The current stiff competition and sophisticated marketing environment has urged service organizations to shift focus from profitability to customer satisfaction and customer loyalty. Better service quality will assure customer loyalty. Based on Coyne (1989), there are two critical thresholds affecting the link between satisfaction and loyalty. On the high side, when satisfaction reaches a certain level, loyalty increases dramatically; at the same time, when satisfaction declined to a certain point, loyalty dropped equally dramatically. Service quality stems from the application of the four dimensions discussed above; the service environment, interaction quality, empathy and reliability. The quality of service directly determines the level of customer satisfaction. A dissatisfied customer is one who experiences poor service and a satisfied customer is one who experiences good service. If a bank is to capture the loyalty of a customer then first the customer must experience superior service. Quality service then results in customer satisfaction which is an antecedent to customer loyalty. However customer satisfaction does not necessarily imply customer loyalty but loyalty must be preceded by satisfaction.

Loyalty begins only after a certain level of customer satisfaction has been achieved. Some researchers (Levesque & McDougall, 1996) considered satisfaction as an antecedent of loyalty. Caruana (2002) argued that overall satisfaction with an experience does lead to customer loyalty. Much of the marketing literature gives the impression satisfied customers automatically are loyal customers. The thinking is a satisfied customer, as a result of his/her satisfaction, will naturally become a loyal customer and satisfaction is the only catalyst necessary for developing such loyalty. Apart from this, it is apparent that high customer satisfaction should indicate increased loyalty for current customers. This means more customers will repurchase in the future. Keeping in mind the argument provided by the earlier researchers, customer satisfaction has been considered as the key antecedent for loyalty.

2.4 Customer Loyalty

The notion of the loyalty construct has developed over the years (Caruana, 2002). Research into customer loyalty has focused primarily on product-related or brand loyalty, whereas loyalty to service organizations has remained underexposed (Bloemer *et al.*, 1998). The concept of brand (customer) loyalty also extends to service organizations that typically provide somewhat more intangible products. Service loyalty can be defined as the degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises (Caruana, 2002).

Service loyalty is perhaps one of the most important constructs in services marketing. Indeed, loyal customers that indulge in repeat purchases are the foundation of any business. In an era of competitive pressure many firms are focusing their efforts on maintaining a loyal customer base (Caruana, 2002). Due to strong competition, the financial services sector has faced radical changes and several strategies have been attempted to create customer loyalty. To increase customer loyalty, many banks have introduced innovative products and services but the notable thing is that others easily follow those innovations and customers perceive very little difference in the services offered by retail banks. It has also been argued that a more feasible approach for banks is to focus on less tangible and less easy-to-imitate factors of customer loyalty such as service quality and satisfaction (Bloemer *et al.,* 1998).

For any firm to compete effectively and thrive in the current environment that is very dynamic, it has to ensure that customers are satisfied with the service quality, therefore promoting customer loyalty through repeat purchase. This can only be accomplished by ensuring that it establishes a relationship with its customers. No business, unless it is a state monopoly, can stay in business if the customers are not satisfied with service quality. Moreover due to the fact that customers' expectations are constantly increasing, corporations are now required to go beyond their primary need of satisfying the customer, to exceed their expectations and hence delight them (Kandampully, 1998). Firms therefore, have to shift their customer focus from purely satisfying customers to creating loyalty. Customer loyalty is a concept gaining more and more attention in today's business when loyal customers are considered as essential components to organizational success. Loyal customers tend to purchase more often, spend more money and usually enhance a positive word-of-mouth.

Loyalty has been defined as the state of "being faithful" or "steadfast in allegiance" to another party (Oliver, 1997).In a business context however, loyalty has been described as a customer's commitment to do business with a particular organization, purchasing their goods and services repeatedly, and recommending the services and products to friends and associates (Mcllroy & Barnett, 2000). Shoemaker & Lewis (1999) suggest that loyalty occurs when the customer feels so strongly that you can best meet his or her relevant needs better than the competitor and the customer buys almost exclusively from you. Oliver (1997) confined this definition of customer loyalty to a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior.

Managers need to realize that all relationships are based on customer satisfaction, which is hard to win but easy to destroy. It is earned and it is cultivated over a long period of time. The link between customer loyalty and profitability has become increasingly recognized in marketing strategy, and the increasing interest in customer loyalty program is a result of the recognition that generating more business from existing customers usually are cheaper and more effective than just trying to attract new ones.

2.4.1 Categories of Loyalty

There are a number of scholars who have developed categories of loyalty over the years (Jacoby & Chestnut, 1978). A number of researches however, have proposed that there are two main types of loyalty. These are attitudinal loyalty and behavioral loyalty .The attitudinal measures of loyalty are based on statements of preferences, commitment or intentions to behave. They generally involve asking customers or potential customers their attitude towards brands and their intended purchasing behavior. Behavioral measures of loyalty explore actual purchases observed over a period of time. It represents more of what retailers are aiming for, as it has to do with customer habits. Behavioral loyalty does not explain why repeat buying usually occurs and may be influenced by different situational factors. Four different categories of loyalty can be distinguished: no loyalty, spurious loyalty, latent loyalty and loyalty (Maggi, 1999).

Figure 2.2: Categories of customer loyalty – Maggi, 1999

Repeat purchase behavior

Relative attitude	High	Low
High	Loyalty	Latent loyalty
Low	Spurious loyalty	No loyalty

Source: Adapted from Maggi (1999)

The existence of true loyalty is when the customer regularly purchases from a specific outlet due to strong preferences. Consequently, this category is the most preferable. Managers should focus on maintaining and strengthening customer attitudes, which might imply maintaining price advantages as well as offering additional services that are valuable to the customers. Latent loyal customers are characterized by having a relatively high attitude towards the firm or the brand; however this is not apparent in terms of purchase behavior. These customers' choices are usually affected by supplier location, stock situation or the influence of other people. Spurious loyalty is very similar to the concept of inactivity and apathy, due to the fact that the customer does not believe that the alternatives are differentiated.

The repeat purchase pattern can be based on special offers, convenience, and availability of deals and recommendation of others. Consequently, customers might only be loyal occasionally and can very easily switch to competitors. The aim for managers should be to influence these customers in order to make them loyal, which can be done by affecting the customers' attitude towards the brand, for instance through communicating specific advantages. Furthermore, an argument of switching costs, which imply that it will be costly for the customers to switch to another competitive brand, might also be an alternative method in order to retain these customers. In situations where the customers' relative attitude as well as the repeat purchase behavior is low, there is absence of customer loyalty. Customers belonging to this category make purchases based on convenience rather than loyalty. Firms should not spend unnecessary resources on customers that are not loyal.

2.4.2 Determinants of Customer Loyalty

As a way of achieving consumer loyalty companies must continuously exceed the customers' expectations, otherwise they may switch to other firms or even other brands. The communication of goodwill of the company's products and services to other customers may also be lost. However, exceeding the customer's expectations does not imply exceeding them on every dimension, instead to selectively reward customers with items that are important to them.

Another determinant of customer loyalty has been the overall perceived quality of products and services (Aaker, 1999). Bitner (1990) argues that service quality specifically is determined by customer satisfaction /dissatisfaction with the service experiences and that service quality, in turn, affects service loyalty. Corporate image has been cited as a determinant of consumer loyalty as it is highly associated with how the customers perceive the company and its offering. Physical characteristics such as convenience and location are important to customers choosing their shopping preferences but satisfaction should accompany this to gain customer loyalty (Maggi, 1999).Customers are known to try and establish a sense of belonging to a corporation or brand which highly influences consumer loyalty. Consumers gain comfort in knowing that they share the same beliefs as the organization. As a result, companies that are able to exploit such feelings are most likely to succeed in achieving consumer loyalty.

2.5 Relationship between Service Quality and Customer Loyalty

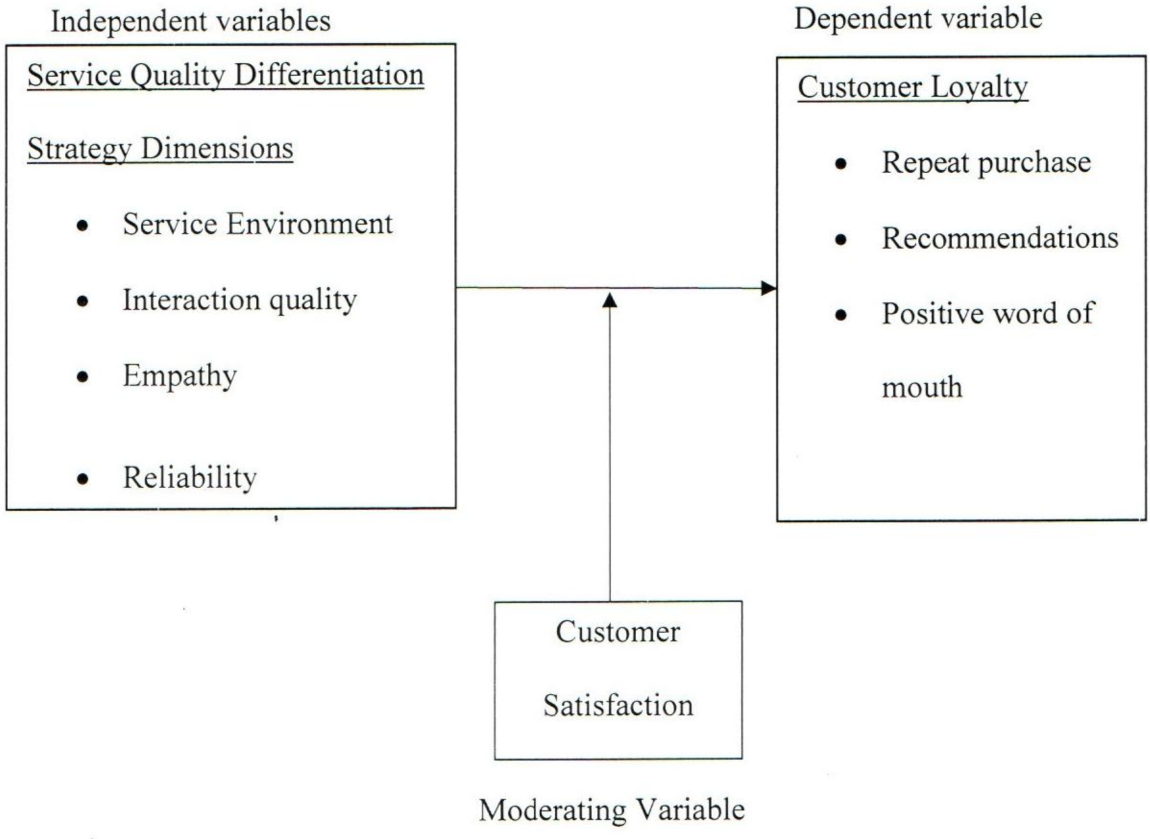
In general, service quality is seen as a critical factor for a firm's success. There is a relationship between service quality and repurchase intention, recommendation, and resistance to better alternatives. All these – repurchase intention, recommendation and resistance to better alternatives – are behavioral intentions and constitute customer loyalty. The relationship between overall service quality and individual service loyalty dimensions has also been examined empirically by Boulding *et al.* (1993) and Cronin & Taylor (1992). Cronin & Taylor (1992) focused solely on repurchase intentions, whereas Boulding *et al.* (1993) focused on both repurchase intentions and willingness to recommend. In the study by Cronin & Taylor (1992) service quality did not appear to have a significant (positive) effect on intentions to purchase again, while Boulding *et al.* (1993) found positive relationships between service quality and repurchase intentions and willingness to recommend. Loyalty under varying pricing conditions, this is willingness to pay a premium price and to remain loyal even when prices go up, has not received much attention in the service quality literature. Only Zeithaml *et al.* (1990) reported a positive relationship between service quality and the two aforementioned loyalty dimensions.

The relationship between service quality (SQ) and customer loyalty is a positive one, and one that is critical for the survival of a firm. There is an effect of SQ on the bottom line performance of a firm through enhanced customer loyalty in that the perceived service exceeds the service level desired by customers (Caruana, 2002).There is strong evidence that supports the proposition that service quality perceptions are an important determinant of customer loyalty (Beerli *et al.*, 2004 ;Lam & Burton, 2006). These studies argue that the provision of superior bank service influences a customer's choice of bank. In short, a bank that offers superior service in comparison to its competitors provides customers with an incentive to select and maintain an ongoing relationship with that bank; correspondingly, a bank that offers inferior service is unlikely to attract or retain customers (Ennew & Binks, 1996). The provision of superior bank service necessitates that banks understand the needs of their customers.

2.6 Conceptual Framework

Service quality differentiation strategy dimensions (Service Environment, Interaction quality, Empathy and reliability) are critical in influencing customer loyalty. Customer loyalty which is measured by repeat purchase, recommendations and positive word of mouth, is differently influenced by the aforementioned service quality dimensions. In other words, each of the service quality dimensions influences customer loyalty differently. However, this relationship between service quality dimensions and customer loyalty is subject to customer satisfaction which is a moderating variable in this study. Customer satisfaction level is a deciding factor on whether the provided service quality will yield a corresponding measure of customer loyalty. This is illustrated in figure 2.3 below.

Figure 2.3: Conceptual Framework



Source; researchers compilation, 2011

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design

The study adopted the descriptive survey design. Kombo & Tromp (2006) state that the major purpose of descriptive research is description of state of affairs as it exists. The design was chosen because the researcher was fairly knowledgeable about the aspects of the phenomenon, but little knowledge was available regarding their characteristics, nature or details.

3.2 The Area of Study

The study was conducted within Nakuru Municipality and targeted customers of banks within the study area. Nakuru is a cosmopolitan town consisting of various communities in Kenya and it is the headquater of Nakuru County.

3.3 Target Population

The study was conducted in commercial banks within Nakuru Municipality. The study targeted commercial banks that had operated in Nakuru Municipality for a period of more than 5 years.

3.4 Sample Size and Sampling Procedure

The study used purposive sampling technique in the selection of the banks, whereby only banks that had been in operation for more than 5 years in Nakuru Municipality were used for the study. There were 12 commercial banks that had been in operation for more than 5 years in Nakuru Municipality with a population of 238,560 customers as at May, 2011 through a preliminary study conducted by the researcher.

Hence, the sample size for the study was obtained using the following formula provided by: Krejcie & Morgan (1970).

$$S = \frac{P(1-P)}{\frac{A^2}{Z^2} + \frac{P(1-P)}{N}}$$

Where :

S = Sample size required

N = Number of people in the population

P = preliminary estimate of percentage of people in the population who possess attributes of interest. The conservative estimate and one that is often used is 50%. (0.5 will be used in this formula)

A= Accuracy (or precision) desired, expressed as a decimal (0 .05 for 5% is used in this formula**)**

Z = The number of standard deviations of the sampling distribution (Z units) that corresponds to the desired confidence level , 1.96 for 95% confidence level .

The formula was preferred for its acceptable level of accuracy in generating a representative sample size at 0.05 level of signifance. Using the above formula the sample size for this study was 384 using a target population of 238560.

Table 3.1: Sample Distribution as per Banks.

Banks with operations for more than 5 years	Active bank customers	Percentage	Sample size
Postbank	8400	4%	14
National bank	16800	7%	27
Equity Bank	52800	22%	85
Transnational bank	6000	3%	10
Kenya commercial bank	28800	12%	46
Barclays Bank	15600	7%	25
Oriental Commercial bank	1200	1%	2
Standard Chartered bank	18000	8%	29
Credit bank	2160	1%	3
Family bank	36000	15%	58
Cooperative bank	48000	20%	77
K rep bank	4800	2%	8
	238,560	100%	384

Source; Preliminary Survey May, 2011

The information in table 3.1 above was obtained from bank managers of the respective banks in Nakuru Municipality, through a preliminary study conducted by the researcher in the month of May ,2011. The sample size column was a distribution of the respondents to the selected banks computed using the fomula provided by Krejcie & Morgan (1970) as follows.

$$s = \frac{xS}{P}$$

Where: s = Sub-sample size for each bank

x = Sub population of customers in each bank

S = Total sample size for the study

P = Total population for all the banks

3.5 Data Collection Procedures

A questionnaire was used to collect data from primary source who were the bank customers. The questionnaire was used because of its convenience in its administration, scoring of items and analysis (Ary, Jacobs & Razavieh, 1979). The items in the questionnaire were developed on the basis of the objectives of the study. The purpose of the questionnaire was to capture core data related to the four service quality dimensions: service environment, interaction quality, empathy, and reliability that are applicable in the financial institutions. The respondents were obtained outside the banking hall. Individual respondents in each bank were selected using systematic random sampling, whereby a random starting point was decided and every kth customer was selected (Kothari, 2004). Authorization was obtained from Egerton University prior to data collection exercise and the data collection process was completed within duration of one month. The researcher gave assurance to the respondents regarding confidentiality of information obtained through a letter of introduction.

3.5.1 Validity of Instrument

The study performed content and construct validity of the research instrument, whereby the views of a strategic management expert in the Faculty of Commerce at Egerton University were relied upon. The researcher ensured that the instrument was able to capture information that answered the research objectives and it was constructed professionally to avoid obtaining irrelevant answers. Kothari (2004) pointed out that validity measures the accuracy of the instruments in obtaining the anticipated data which can meet the objectives of the study.

3.5.2 Reliability of Instrument

Reliability of an instrument is the degree of consistency with which it measures a variable (Mugenda & Mugenda, 1999). The questionnaire was pilot tested on customers drawn from two banks that were not part of the study. Systematic random sampling technique was used for the selection of the banks for the pre-test. This was done to see the success of the questionnaire in meeting the objectives.

3.6 Data Analysis and Presentation

Data collected was coded, keyed in the computer and analyzed with the aid of the Statistical Package for Social Sciences version 15 (SPSS) computer software. Descriptive statistics (frequencies and percentages) was used to describe the findings as they were while inferential statistics (correlation and regression) was used to test hypothesis .Regression analysis was used to test hypothesis 5 and the linear regression model $CL = a + B_1SE + B_2IQ + B_3E + B_4R + e$ was used

Where:

CL= Customer loyalty which is the dependent variable

a= minimum value of the dependent variable if all the independent variables are zero

B_1= Coefficient of service environment (SE)

B_2=Coefficient of interaction quality (IQ)

B_3=Coefficient of empathy (E)

B_4=Coefficient of reliability (R)

e=Error variable

To test hypothesis 1, 2, 3 and 4 the test statistic was used

$$t_{calculated} = r\sqrt{\frac{n-2}{1-r}}$$

Where:

r = correlation coefficient

n= number of observations

The test statistic was used to test the hypothesis

$H_0 = \rho = 0$

$H_1 = \rho \neq 0$

Where:

ρ = Population correlation coefficient

H_O = Null hypothesis

$H_1 \neq$ Alternate hypothesis

The research findings were presented in the form of tabular summaries.

CHAPTER FOUR

DATA ANALYSIS

4.1 Demographic characteristics of the Respondents.

4.1.1 Gender of the Respondents.

From those interviewed 52.9% were male while 47.1 % were female as shown in the table 4.1.

Table 4. 1: Gender of the Respondents

Gender	Frequency	Percent
Male	203	52.9
Female	181	47.1
Total	**384**	**100.0**

Source; research data, 2011

4.1.2 Age of the Respondents.

Majority of the respondents were below the age of 30 years (35.7%) with 31.5% being between 30-45 yrs of age and 29.2% being between 46-60 years as shown in table 4.2. Those aged above 60 years were the least with 3.6%. Majority of the banked population are in the category of below forty five years.

Table 4. 2: Age of the Respondents

Age	Frequency	Percent	Cumulative Percent
Below 29 Years	137	35.7	35.7
30-45 Years	121	31.5	67.2
46-60 Years	112	29.2	96.4
Over 61 Years	14	3.6	100.0
Total	**384**	**100.0**	

Source; research data, 2011

4.1.3 Number of Years as a Bank Customer

The loyalty of a customer to a bank is dependent on time one stays with the bank. From the findings of the study, majority of the customers have been with their respective bank for more than five years. From table 4.3, 26.3% have been with their respective banks for less than five years, 42.7% for a period of between 6-10 years while the remaining 31% have been with their respective banks for a period of 11- 15 years. The number of years a customer has been with a bank is important since customer loyalty depends on the longevity of

Table 4. 3: Number of Years as a Bank Customer

No of Years	Frequency	Percent	Cumulative Percent
Less Than 5 Years	101	26.3	26.3
6-10 Years	164	42.7	69.0
11-15 Years	119	31.0	100.0
Total	**384**	**100.0**	

Source; research data, 2011

4.1.4 Level of Education of the Respondents

From the findings of the study, 74.5% of the respondents had attained education level of above secondary level as shown in table 4.4 while only 25.5 % of the respondents had attained up to primary level education .Those customers with an education of up to secondary level can easily understand bank operations.

Table 4. 4: Highest Level of Education of the Respondent

Education Level	Frequency	Percent	Cumulative Percent
Primary Level	98	25.5	25.5
Secondary Level	214	55.7	81.3
Graduate	72	18.8	100.0
Total	**384**	**100.0**	

Source; research data, 2011

4.2 Descriptive Statistics on Service Environment

The first objective of this study was to determine the influence of service environment on customer loyalty in commercial banks within Nakuru Municipality. Service environment is one of the dimensions of service quality differentiation strategy. In this study, service environment was measured using exterior and interior aspects of the bank, space of the banking hall and the dressing of the bank staff.

Table 4. 5: Summary of Service Environment Responses

Service Environment	SD (%)	D (%)	N (%)	A (%)	SA (%)
Interior and exterior of bank is pleasing	0	9.1	2.3	59.4	29.2
The banking hall is spacious enough	3.6	12	1	71.9	11.5
The staff of this bank are well dressed	0	0.8	10.2	26.8	62.2

Source; research data, 2011

Key: SD-Strongly Disagree; D- Disagree; N-Neutral; A- Agree; SA- Strongly Disagree

4.2.1 Exterior and Interior aspects of the Bank

The study sought to know the extent to which customers perceived the pleasantness of the exterior and interior of the bank. Table 4.5 shows that 88.6 % of the respondents strongly agreed or agreed that the exterior and interior aspects of the bank are pleasing while 9.1% disagreed with this, with 2.3% remaining neutral on the issue. This implies that very many bank customers are very keen of the way the bank looks. This also shows that the banks have visually attractive, equipment, personnel, and communication materials. This is important to the bank customers.

4.2.2 Spaciousness of the Banking Hall

The other aspect of service environment that was measured in this study was spaciousness of the banking hall. The respondents were asked to give their opinions on whether the banking hall of their respective banks is spacious. The findings show that 15.6% of the respondents either disagreed or strongly disagreed that their respective bank halls are spacious while 1% were neutral. Majority (71.9%) of the respondents agreed that banking hall of their respective banks is spacious with 11.5% strongly agreeing as indicated in table 4.5. The bank customers consider the banking hall space to be an important aspect since most of them were of the opinion that the banking hall of their respective banks is spacious.

4.2.3 Dressing of the Bank Employees

How well dressed the bank staff are, is also another service environment aspect that was looked into. The researcher sought to know the level of agreement on bank staffs being well dressed. Table 4.5 shows that 89% of the respondents either agreed or strongly agreed that staffs of their respective banks were well dressed. A small proportion 10.2% was neutral on the issue. The fact that the respondents gave their opinion on bank staff dressing shows that they are very keen on the way bank staffs dress.

4.3 Descriptive Statistics on Interaction Quality

The second objective of this study was to establish the influence of interaction quality on customer loyalty in commercial banks within Nakuru Municipality. It encompasses attitudes and behaviors of the service providers and their interaction style with customers. Bank staff should be courteous, warm, pleasant, and polite and they should be able to meet customer's requests quickly.

Table 4.6: Summary of Interaction Quality Responses

Interaction Quality	SD(%)	D(%)	N(%)	A(%)	SA(%)
The bank employees are courteous, warm and pleasant.	4.9	28.6	0	45.1	21.4
The employees of this bank are polite to customers	0	5.2	8.1	27.1	59.6
Employees of this bank meet customers requests quickly	5.5	7.3	5.2	65.9	16.1

Source; research data, 2011

Key: SD-Strongly Disagree; D- Disagree; N-Neutral; A- Agree; SA- Strongly Disagree

4.3.1 Courteousness, Warmth and Pleasantness of the bank employees

From the finding of study, 66.5% of the respondents were for the opinion that the bank employees are courteous, warm and pleasant. Despite the fact that majority strongly agreed or agreed, a considerable percentage (4.9%) strongly disagreed and (28.6%) disagreed were against the opinion that their respective banks employees were courteous, warm and pleasant. From the findings it shown that the respondents were of the opinion that even though the bank employees are courteous, warm and pleasant, in some instances they have not practiced this according to some respondent's views. This is shown in table 4.6.

4.3.2 Politeness to the Customers

Politeness of the bank employees to customers is another aspect of interaction quality. The study sought to know the level of agreement on bank employees being polite. From the findings of the study, 5.2% disagreed, 8.1% were neutral. Respondents largely agreed that employees are polite (86.7%).Bank employees undergo training on how to handle various types of customers and this is confirmed by the research. This is shown in table 4.6.

4.3.3 Meeting Customer's Requests

Meeting customer requests quickly is very vital in service provision. Banks customers will be loyal to banks whose employees meet their request quickly. From table 4.6, the findings show that 12.8% of the respondents either strongly disagreed or disagreed, 5.2% were neutral while 82% either agreed or strongly agreed. This indicated that the banks employees are ready to meet customer request quickly.

4.4 Descriptive Statistics on Empathy

The third objective of this study was to establish the influence of empathy on customer loyalty in commercial banks within Nakuru Municipality. This is also referred to as personalization. It reflects the degree to which service is tailored to meet the needs of the customers. Currently, the competition in banking industry has made banks to offer personalized service for customer loyalty. This study sought to look at customization of services by the bank to meet the specific needs of the customers, if the bank provides individualised attention to its customers and whether the bank employees are interested in solving the customers' problems.

Table 4.7: Summary of Empathy Responses

Empathy	SD(%)	D(%)	N(%)	A(%)	SA(%)
Bank customizes its services to meet specific needs.	0	15.4	0	74.5	10.1
Bank provides individualized attention to its customers.	0	5.5	4.2	79.9	10.4
Bank employees are interested in solving my problems.	0	18	4.7	57.6	19.7

Source; research data, 2011

Key: SD-Strongly Disagree; D- Disagree; N-Neutral; A- Agree; SA- Strongly Disagree

4.4.1 Customization of Services

On customization (personalization) of services to meet customers' needs, the findings in table 4.7 shows that majority of the respondent agreed that banks have customized their services (74.5%). Some respondents disagreed (15.4%) with this opinion. It can be concluded that banks have been up to task to customize their services so as to meet the customers' needs. Competition has made banks to modify their services to suit the customer's needs. This makes them flexible to the increasing customer's needs.

4.4.2 Individualized attention to Customers

From the findings of this study majority of the respondents (79.9%) agreed with the opinion that their respective banks provide individualized attention to their customers while 10.4% strongly agreed with the same opinion. The remaining 9.7% either disagreed or were neutral. Competition has made banks to take keen interest in their customers and this is why they have provided individualized attention to their customers as evidenced in table 4.7.

4.4.3 Interest in Solving Customers' Problems

Showing interest in solving customer's problems by bank employees goes a long way in enhancing customer loyalty. The finding shows that 18% of the respondents disagreed that the bank employees show interest in solving customer problem, 4.7% were neutral, 57.6% agreed while 19.7% strongly agreed. Banks are keen on customers' problems which are in line with the banks policy. A bank will take all the measures to mitigate losses. This is done through vetting by credit committees in order to avoid bad debts. This is shown in table 4.7.

4.5 Descriptive Statistics on Reliability

The fourth objective of this study was to establish the influence of interaction quality on customer loyalty in commercial banks within Nakuru Municipality. This is the ability to perform the promised service dependably and accurately. The number of contact points with customers, duration for delivering service like processing cheques, cash deposits and loans and providing services right the first time constitute the reliability dimension.

Table 4.8: Summary of Reliability Responses

Reliability	SD(%)	D(%)	N(%)	A(%)	SA(%)
Number of contact points with customers are many	0	22.4	0	69.3	8.3
Duration of service delivery is fast enough	0	20.6	0	51.8	27.6
Employees provide services right the first time	4.2	4.4	8.6	50.3	32.5

Source; research data, 2011

Key: SD-Strongly Disagree; D- Disagree; N-Neutral; A- Agree; SA- Strongly Disagree

4.5.1 Number of Contacts Points with Customers.

The banks number of contacts points within the banking hall with its customers makes customers to access services conveniently thus enhancing customer loyalty. The more the contacts points for example cashiers and ATMS, the more reliable it is to the customers. The research sought to know the opinion of respondents on number of contacts points being many. The findings show that 22.4% disagreed that their respective banks have many contacts points, 69.3% agreed while 8.3% strongly agreed. From, the findings as shown in table 4.8, majority of customers believe that their respective banks have many contacts points. Competition has enhanced the efforts by banks to create more contact points with their customers .This is evidenced by mobile banking, agency banking, internet banking, strategic alliances, increase in bank tellers and increase in automated machine services.

4.5.2 Duration of Service Delivery.

Time taken for one to get a service dictates whether that person will be loyal or not. This study sought to seek the opinion of the bank customers on how fast service delivery is i.e. processing of cheques and loans. The findings in table 4.8 shows that 20.6% disagreed, 51.8% agreed and 27.6% strongly agreed that service delivery in terms of cheques and loan processing is fast enough. Fast service delivery is very vital in enhancing customer loyalty.

4.5.3 Provision of accurate Services the First Time

On the issue of service provision by bank employees being right the first time, 4.2% strongly disagreed that employees of the their respective bank provide services right the first time, 4.4% disagreed, 8.6% were neutral, 50.3% agreed while 32.6% strongly agreed. From the findings as shown in table 4.8, it is evident that most bank employees provide service right the first time. Bank employees are usually trained on the importance of effectiveness since financial matters are sensitive and customers are not ready to gamble with ineffective employees.

4.6 Customer Loyalty

Customer loyalty was the dependent variable. Customer loyalty is the customer's commitment to the bank's products and services as a result of established relationship with the bank.

Table 4.9: Summary of Loyalty Responses

Customer Loyalty	SD(%)	D(%)	N(%)	A(%)	SA(%)
I will stay with this bank in the future	0	9.9	8.1	29.2	52.8
I recommend this bank to people I know and meet	0	4.2	2.6	43.8	49.4
I proudly tell people about the good service quality of this bank	0	9.6	0	52.1	38.3

Source; research data, 2011

Key: SD-Strongly Disagree; D- Disagree; N-Neutral; A- Agree; SA- Strongly Disagree

4.6.1 Staying with the Bank in Future

On the question of staying with the bank in the future, 9.9% disagreed that that they will stay with the bank in the future, 8.1% were neutral, 29.2% agreed while 52.8% strongly agreed as shown in table 4.9. From the findings, it is evident that the respondents will stay with their respective banks in the future. This implies that the respondents are loyal to their respective banks. A bank should ensure that it meets its customer's expectations for them to be willing to stay with the bank in the future.

4.6.2 Recommending the Bank to others.

On whether the respondents recommend their respective banks to people they know and meet, 4.2% disagreed, 2.6% were neutral, 43.8% agreed while 49.4% strongly agreed as evidenced in table 4.9. From the findings as shown in table 4.9, it is evident majority of the respondent recommends their respective banks to people they know and meet. This may imply that that they receive good services from their respective banks and that is why they recommend the bank to people they know and meet.

4.6.3 Telling People about Service Quality of the Bank.

From the findings as evidenced in table 4.9, the respondents' opinion on whether they would proudly tell people they meet and know about the good service quality service of their respective banks was that, 9.6% disagreed, 52.1% agreed while 38.3% strongly agreed. This implies that the respondents receive good service quality from their banks and that is why they can proudly tell others.

4.7 Hypotheses Testing.

The mean of the three components under each of the independent variables (service environment, interaction quality, empathy and reliability) as well as that of the dependent variable (customer loyalty) was obtained of all the 384 respondents. This ensured that there was one overall mean for service environment, interaction quality, empathy, reliability and customer loyalty for all the 384 respondents.

Table 4.10: Summary of Correlations

			SE	IQ	E	R	CL
Spearman's rho	SE	Correlation Coefficient	1.000	-.012	.117(*)	.019	-.044
		Sig. (2-tailed)	.	.808	.021	.710	.385
		N	384	384	384	384	384
	IQ	Correlation Coefficient	-.012	1.000	.223(**)	.111(*)	-.242(**)
		Sig. (2-tailed)	.808	.	.000	.030	.000
		N	384	384	384	384	384
	E	Correlation Coefficient	.117(*)	.223(**)	1.000	-.306(**)	-.327(**)
		Sig. (2-tailed)	.021	.000	.	.000	.000
		N	384	384	384	384	384
	R	Correlation Coefficient	.019	.111(*)	-.306(**)	1.000	-.174(**)
		Sig. (2-tailed)	.710	.030	.000	.	.001
		N	384	384	384	384	384
	CL	Correlation Coefficient	-.044	-.242(**)	-.327(**)	-.174(**)	1.000
		Sig. (2-tailed)	.385	.000	.000	.001	.
		N	384	384	384	384	384

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

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

Source; researchers compilation, 2011

Key:

SE -Service Environment

IQ - Interaction Quality

E - Empathy

R -Reliability

CL - Customer Loyalty

Correlation is the degree of relationship between two variables. It is a relative measure of value and it ranges from negative one to positive one. Negative correlation implies that two variables are moving in opposite directions while positive correlation implies that they are moving in the same direction (Kothari, 2004).

$H_0$1: There is no Significant Influence of Service Environment on Customer Loyalty in Commercial Banks within Nakuru Municipality.

In the correlation analysis of the study as shown in table 4.10, the correlation between service environment and customer loyalty was a very weak negative correlation. The negative relationship indicates that the more the banks adopt service environment the less the customer loyalty but the correlation is not significant ($r= -0.044$, $P > 0.05$) .The null hypothesis (H_0) that there is no significant influence of service environment on customer loyalty in commercial banks within Nakuru municipality was accepted .This could imply that bank customers in Nakuru Municipality do not consider interior and exterior of the bank, banking hall spaciousness and the dressing of the bank staff for them to remain loyal to their respective banks. These results are consistent with other studies that have shown that there is no significant influence of service environment on customer loyalty (Cronin & Taylor 1992).

$H_0$2: There is no Significant Influence of Interaction Quality on Customer Loyalty in Commercial Banks within Nakuru Municipality.

There is an indirect relationship between interaction quality and customer loyalty as shown in table 4.10 , however the degree of the relationship between the two variables is weak .This implies the more the banks adopt interaction quality, the lesser the customer loyalty they achieve. This relationship is significant thus the null hypothesis (H_0) that there is no significant influence of interaction quality on customer loyalty in commercial banks within Nakuru Municipality should be rejected ($r=-0.242$,$P< 0.01$).This could imply that the bank employees being courteous, warm, pleasant, polite and meeting customers' requests quickly affect the customers' loyalty but negatively. These results are inconsistent with other studies that show a significant but positive correlation between the two aforementioned variables (Gerard, Nicholas, Alexandros & Magsalini, 2010.)

$H_0$3: There is no Significant Influence of Empathy on Customer Loyalty in Commercial Banks within Nakuru Municipality.

There is a moderate relationship between empathy and customer loyalty variables as shown in table 4.10. This implies that increase in application of empathy leads to a decrease in customer loyalty. The relationship is significant (r=-0.327, P< 0.01) thus the null hypothesis that that there is no significant influence of empathy on customer loyalty in commercial banks within Nakuru Municipality was rejected. This could imply that the bank customizing its services, providing individualised attention to customers and being interested in solving customers' problems do influence customer loyalty but negatively. These results are inconsistent with other studies which show a significant but positive correlation between empathy and customer loyalty (Mohammad & Noorjahan, 2009).

$H_0$4: There is no Significant Influence of Reliability on Customer Loyalty in Commercial Banks within Nakuru Municipality.

Reliability and customer loyalty are negatively correlated, this means that the two variables are inversely correlated meaning they move in different directions this implies that increased use of reliability dimension by the banks reduces customer loyalty. The relationship is significant (r= -0.174, P< 0.01) thus the null hypothesis that there is no significant influence between reliability and customer loyalty should be rejected. This could imply that the number of contact points with customers, duration of service delivery and providing services right the first time affects customer loyalty but the two variables are negatively correlated. These results are inconsistent with other studies that have shown a significant and positive correlation between reliability and customer loyalty (Mohammad & Noorjahan, 2009).

Ho5: There is no single independent variable that significantly influences customer loyalty in commercial banks within Nakuru Municipality.

Regression analysis usually enables confirmation of relationships between the independent and dependent variables since not all factors that are found to be significant in the correlation analysis influence the dependent variables. On conducting the regression analysis on the identified variables which were service environment, interaction quality, empathy and reliability against customer loyalty the following results were obtained as discussed below.

Table 4.11a

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	.451	.203	.195	.572	.203	24.197	4	379	.000

a Predictors: (Constant), R, SE, IQ, E

Source; researchers compilation, 2011

Table 4.11b

	Sum of Squares	df	Mean Square	F	Sig.
Regression	31.658	4	7.915	24.197	.000[a]
Residual	123.967	379	.327		
Total	155.625	383			

a Predictors: (Constant), R, SE, IQ, E

b Dependent Variable: CL

Source; researchers compilation, 2011

Table 4.11c

	Unstandardized Coefficients		Standardized Coefficients	Sig.	Collinearity Statistics	
	B	Std. Error	Beta		Tolerance	VIF
(Constant)	8.403	.518		.000		
SE	-.002	.082	-.001	.976	.982	1.019
IQ	-.110	.048	-.110	.022	.915	1.093
E	-.557	.072	-.388	.000	.826	1.210
R	-.427	.073	-.289	.000	.870	1.150

a Dependent Variable: CL

Source; researchers compilation, 2011

The R value which is the correlation coefficient was 0.451 as shown in table 4.11a meaning there was a relationship between service environment, interaction quality, empathy, and reliability as independent variables with customer loyalty as the dependent .The co-efficient of determination (R^2) indicated a value of 0.203; this indicates that about 20.3% of the variation is explained by the predictor (independent) variables while the remaining proportion of 79.7% could be explained by other factors and also by chance or error. The F value was 24.197 as shown in table 4.11b, meaning that the improvement due to fitting the regression model is much greater than the inaccuracy within the model. The F ratio of 24.197 is very unlikely to have happened by chance since $p < 0.05$.This results mean that the final model significantly improves the ability to predict the outcome variable (customer loyalty).The null hypothesis (5) that there is no one significant factor that influences customer loyalty in commercial banks within Nakuru Municipality was thus be rejected . This is consistent with a study by Boulding et al. (1993) which found positive relationships between service quality dimensions and customer loyalty yet the results of this study are inconsistent with the study by Cronin & Taylor (1992) that found out that service quality did not appear to have a significant positive effect on intentions to purchase again which is a customer loyalty component,. The relationship between SQ and customer loyalty is a positive one, (Caruana, 2002).

As shown in table 4.11c the standardized beta values are all negative meaning the contribution of the independent variables and the dependent variable move in opposite directions. As evidenced in table 4.11c below, interaction quality, empathy and reliability have significance values ($P< 0.05$) meaning the three independent variables contribute significantly to the model and thus the null hypothesis 2,3 and 4 should be rejected. Service environment does not contribute significantly to the model ($P> 0.05$) thus the null hypothesis 1 should be accepted. This is consistent with the correlation analysis done above and it confirms the correlation results. Empathy has the highest contribution to the model followed by reliability. In third position is interaction quality and lastly service environment makes the least contribution to the regression model. The multiple regression equation derived from the analysis is shown below;

$CL = a + B_1SE + B_2IQ + B_3E + B_4R+e$

Where:

CL = Customer loyalty which is the dependent variable

A = Minimum value of the dependent variable if all the independent variables are zero

B_1 = Coefficient of service environment (SE)

B_2 = Coefficient of interaction quality (IQ)

B_3 = Coefficient of empathy (E)

B_4 = Coefficient of reliability (R)

E =Error variable

The value of 8.403 shown in table 4.11c is the constant value. This is the minimum value of the dependent variable in a situation where all the independent variables are zero. The coefficient of service environment was – 0.002. The degree of movement is however very small and thus it may not have much impact on customer loyalty. The coefficient of interaction quality was -0.110 that of empathy was -0.557. Lastly the coefficient of Reliability was -0.427. The coefficients for all the independent variables were negative indicating that they all move in the opposite direction with the dependent variable which is customer loyalty.

The term multicollinearity (or Collinearity) is used to describe the situation when a high correlation is detected between two or more predictor (independent) variables. Such high correlations cause problems when trying to draw inferences about the relative contribution of each predictor variable to the success of the model. Table 4.11c shows the variance inflation factor (VIF) which measures the impact of Collinearity among the variables in the regression model. Values of VIF that exceed 10 are often regarded as indicating multicollinearity, but in weaker models values above 2.5 maybe a cause of concern. It can be concluded from the findings presented in table 4.11c of the regression model that multicollinearity is not present among the four independent variables

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

According to the findings male respondents accounted for 52.9% while female respondents were 47.1 % of the total respondents; the respondents below 30 years were 35.7%, 30- 45 years of age were 31.5%, 46- 60 years were 29.2% while those over 61 years were 3.6%.. Customers who had been with their respective banks for less 5 years were 26.3%,between 6-10 years 42.7% and those who had been with their banks between 11-15 accounted for 31%.On the issue of the highest level of education level, 25.5% had primary level education, 55.7% secondary level and 18.8% of the respondents had graduate level of education.

The study also established that the respondents responded as follows to the three aspects of service environment as being practiced by their respective banks. On the interior and exterior aspect of the bank 88.6% agreed, 9.1% disagreed while 2.3% of the respondents were neutral, spaciousness of the banking hall had 83.4% of the respondents in agreement, 15.6% disagreed while 1% of the respondents were neutral and on the staff of the banks being well dressed 89% of the respondents agreed, 0.8% disagreed while 10.2% of the respondents were neutral. There was no significant influence of service environment on customer loyalty thus the null hypothesis 1 was accepted.

The study results revealed the following on the interaction quality aspects in Nakuru Municipality. On bank employees being courteous, warm and pleasant, 66.5% of the respondents agreed while 33.5% disagreed. On the aspect of employees being polite to customers 86.7% of the respondents agreed, 5.2% disagreed while 8.1% of the respondents were neutral, while on the aspect of employees being able to meet customers' requests quickly 82% of the respondents agreed, 12.8% disagreed while 5.2% were neutral. There was a significant but negative influence between interaction quality and customer loyalty thus the null hypothesis 2 was rejected.

In relation to empathy, the results indicated that on the aspect of bank customizing its services 84.6% of the respondents agreed while 15.4% disagreed. On the aspect of the bank providing individualized attention 90.3% of the respondents agreed, 5.5% disagreed while 4.2% were neutral and on bank employees being interested in solving the customers' problems 77.3% agreed, 18% disagreed while 4.7% of the respondents were neutral. Empathy was significantly negatively related to customer loyalty and for this reason the null hypothesis 3 was rejected.

According to the findings of the study, the response to the aspects of reliability as being present in commercial banks were as follows ; on the number of contact points being many 77.6% of the respondents agreed while 22.4% disagreed. On the aspect of duration of service delivery being fast 79.4% of the respondents agreed while 20.6% disagreed and the provision of services to customers' being right the first time 82.8% of the respondents agreed, 8.6% disagreed while 8.6 of the respondents were neutral. The findings also revealed that reliability was significantly related to customer loyalty but negatively thus null hypothesis 4 was rejected.

The study results established that the respondents indicated the following on the three measures of customer loyalty: On the aspect of staying with their respective banks in future 82% of the respondents agreed, 9.9% disagreed while 8.1% of the respondents were neutral. On the aspect of recommending the banks to people they knew and met 93.2% of the respondents agreed, 4.2% disagreed while 2.6% were neutral and on the aspect of proudly telling people about the good service quality of the banks 90.4% of the respondents agreed while 9.6% of the respondents disagreed.

According to the findings, the null hypothesis (5) that there is no one significant factor that influences customer loyalty in commercial banks within Nakuru Municipality was rejected. Meaning most of the independent variables (service environment, interaction quality, empathy and reliability) were significantly related to customer loyalty which was the dependent variable.

5.2 Conclusions

From the findings, It can be concluded that most of the bank customers were male (52.9%) and youths. The education level of most bank customers being of up to secondary level (81.3%).This indicates that bank services are affordable and accessible to many Kenyans. It can be concluded that most banks despite having a premises that is pleasing, the banking hall being spacious to avoid congestion and the bank employees being well dressed to impress customers, the three aspects of service environment are not significant in influencing customer loyalty meaning customers do not consider the service environment for them to be loyal to a particular bank.

In the banking sector, there is cut-throat competition; for a bank to survive it must come up with differentiation strategies that will ensure that the customers are satisfied and thus enhancing customer loyalty. It can be concluded that banks have put a lot of emphasis on their employees to ensure they interact well with customers by being courteous, warm, pleasant, and polite and being able to meet customers' requests quickly. The banks have also customized their services so as to have a competitive advantage over their competitors. It can also be concluded, based on the findings that banks are customizing their services, providing individualized attention and are interested in solving customers' problems. Also due to competition the banks have to be reliable. This is evidenced by them being very keen on having many contact points with customers, duration of service being fast and providing services right the first time.

It can be concluded that interaction quality, empathy and reliability influence customer loyalty significantly but negatively. This implies that the increase use of the dimensions by the bank did not necessarily lead to an increase in customer loyalty. It can be concluded that service quality differentiation dimensions influence customer loyalty but negatively. This means that there are other factors that influence customer loyalty that are worth investigating such as interest rates, and location.

5.3 Study Recommendations.

5.3.1 Recommendation to bank institutions

Banks should focus on changing how they apply the service quality differentiation dimensions in the banking industry so that the dimensions influence customer loyalty positively. They can do this by training the bank staff on the importance of differentiation in a competitive business environment. Bank managers should also understand customers' needs and differentiate on aspects that add value in customers' perspectives so as to increase customer loyalty since from the study the service quality differentiation dimensions influenced customer loyalty negatively. This can be achieved by ensuring the bank staff interact with the customers and ask them what they expect of the bank.

5.3.2 Recommendations for Further Study

Research to be conducted on other factors that influence customer loyalty other than the factors discussed in this study which are service environment, interaction quality, empathy and reliability. This study focused on banks in Nakuru Municipality, it is therefore recommended that similar studies be carried out in other parts of the country for comparison purposes. Similar studies should also be done in other sectors of the economy.

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APPENDICES

Appendix I: Research Questionnaire.

Bank Customer Questionnaire

Bank Name..............................

PART A: General Information

1. Kindly indicate your gender.

A. Male [ ] B. Female [ ]

2. Please indicate your age from the choices below.

A. Below 29 [ ] B. 30-45 [ ] C. 46-60 [ ] D. above 61 [ ]

3. Please indicate how long you have been a customer of this bank.

A. Less than 5 years [ ] B. 6 to 10 years [ ]

C. 11 to 15 years [ ] D. Over 16 years [ ]

4. Kindly indicate your highest education qualification.

A. Masters [ ] B. Graduate [ ] C. Secondary level [ ] D. Primary level [ ]

PART B.

Please indicate the extent to which you agree/disagree with the following statements by placing a cross (X) in the appropriate box.

		SA	A	N	D	SD
1	The exterior & interior of this bank is pleasing.					
2	The banking hall is spacious enough.					
3	The staffs of this bank are well dressed.					
4	The bank employees are courteous, warm and pleasant.					
5	Employees of this bank are polite to customers					
6	Employees of this bank meet customer's requests quickly.					
7	This bank customizes its services to meet my specific needs.					
8	This bank provides individualized attention to its customers.					

		SA	A	N	D	SD
9	Whenever I have a problem the bank employees are interested in solving it					
10	The numbers of contact points with customers are many i.e. cashiers and ATM					
11	Duration of service delivery i.e. cheque processing and loan processing is fast enough.					
12	Employees provide the services right the first time					
13	I will stay with this bank in the future.					
14	I recommend this bank to people I know and meet.					
15	I proudly tell people I meet and know about the good service quality of this bank					

Key: SA –Strongly Disagree; A - Agree; N - Neutral; D -Disagree; SD – Strongly Disagree.

Appendix II: List of Banks

Bank	Starting year in Nakuru
ABC	2008
Bank of Africa ltd	2010
Bank of Baroda	2008
Barclays bank of Kenya	1948
CFC Stanbic	2009
Chase bank ltd	2011
Commercial bank of Africa	2010
Cooperative bank	1986
Credit bank	2001
Diamond trust bank	2008
Dubai bank	2008
Ecobank ltd	2009
Equity bank	2001
Family bank	2003
Fina bank ltd	2007
First community bank ltd	2010
I & M Bank	2011
Kenya commercial bank	1949
K-rep bank	2005
National bank of Kenya	1972
NIC bank	2007
Oriental Commercial bank	2002
Post bank	1995
Standard chartered bank	1954
Trans national bank	1994

The total banks in Nakuru Municipality are 25 banks.