

## **Implications of Service Quality on Customer Loyalty in the Banking Sector. A Survey of Banks in Homabay County, Kenya**

**Arvinlucy Akinyi Onditi**

Doctoral Student

Business Administration School of Business and Economics  
Maseno University, Kenya

**Dr. Moses N. Oginda**

Chairman

Department of Management Science  
Maseno University, Kenya

**Dr. Isaac Ochieng**

Department of Mathematics and Business  
Egerton University, Laikipia Campus

**Dr. Willis Oso**

Kampala International College  
Uganda

### **Abstract**

*Marketing management research has advocated for the establishment of the determinants of customer loyalty to improve customer retention and performance. However, studies on the direct relationship between these determinants and customer loyalty have yielded inconclusive results suggesting that failure to control for contextual variables, particularly, service quality, may have confounded this relationship. In order to establish this relationship, this study used the data collected during the period of March 2012 to June 2012 from the 400 customers of the four major banks in Homabay County which included; Equity, KCB, Barclays and Cooperative Bank which have branches in major towns of the County to establish the implications of customer personality on customer loyalty determinants in banking sector in Homa Bay County, to determine the effect of service quality on customer loyalty, Descriptive statistics and multiple regression analysis were used to analyze data. The adjusted R square statistic ( $Adj. R^2 = .046$ ), this suggests that service quality has a significant effect on customer loyalty. Since service quality is significant predictor of customer loyalty that have not changed banks in the last two years, it was possible to build prediction model of customer loyalty using the constant and B value such that  $CL^1 = 70.024 - 0.202SQ$ ; where  $CL^1$  was the predicted customer loyalty that have not changed banks in the last three years, and  $SQ$  the status of service quality. This means that it is possible to increase customer loyalty by about 4.6% through manipulating quality of service. The study contributes to the validation of the determinants of customer loyalty. To the managers, the study shed light on the possible reasons why customer change banks more often. To the managers of public sectors offering services, the study helps in strategic change in service offering in the institutions. It is recommended that future studies focus on the effect of attitude, perception and self concept on customer loyalty and adopt longitudinal case-study designs to establish causal relationships among variables.*

**Key words:** Customer loyalty, Service quality, Banks, Homa Bay County, Customer switching behavior, Consumer Behavior, consumer decision-making.

### **Introduction**

Consumer decision-making is defined as the behavior patterns of the consumers that precede, determine and follow the decision making process for the acquisition of need satisfying products, ideas or services.

During the consumer decision making process, not only do consumers make decisions regarding which service provider to choose but also decide whether to remain loyal to the current service provider (Du Plessis & Rousseau, 1999). Customer loyalty is a deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite situational influences and marketing effort having the potential to cause switching behavior (Beryl & Brodeur, 2007). A basic premise of marketing is that through understanding customers and their purchasing habits, firms can design an effective product offering to help them achieve their objective which is to delight their customers and ensure customer retention. The cost of recruiting new customers is far greater than the cost associated with keeping existing customers which may reduce profitability of the firm. Understanding customer behavior is intricately linked to understanding the needs and wants of customers. Today it is no longer sufficient for a business to simply satisfy a customer during a single transaction, rather, it must try to retain the customer for life, that is, achieve customer retention (Schiffman & Kanuk, 2004).

According to Zeithaml & Bitner (2000), quality in banking sector is classified across six dimensions, these include; Bank atmosphere, the relationship between the customer and the bank, rates and charges, the available and convenient services, Automated Teller machines, reliability/honesty, and enough and accessible tellers.

In the changing banking scenario of the 21st century, banks have to build a strong identity to provide world-class services. The banks have to be of high standard, committed to excellence in customers, shareholders and employees' satisfaction, and to play a leading role in the expanding and diversifying of financial sector (Balachandran, 2005). There has been a tremendous change in the way of banking between the year 2005 and 2009 and customers have also rightly demanded world class quality services from the banks. With multiple choices available, customers are not willing to put up with anything less than the best. Banks have recognized the need to meet customers' aspirations as different customers have different personalities, so it is an urgent drive for the banks to establish the determinants of customer loyalty in the banking sector in order to enhance customer loyalty and retention.

During the past decade, the financial service sector has undergone turbulent changes, resulting in a market place which is characterized by intense competition, little growth in primary demand and increased deregulation with the banking sector. There has been a rapid growth in banking sector with introduction of micro-finance institutions which further increases the competition and complexity among the banks. Customer loyalty and retention has become vital to the long-range profitability and ultimate survival of the bank. This can be done both primarily by maintenance of customers or recruiting new customers. Customer loyalty provides an indication of how successful the organization is at providing products and/ or services to the market

The limited of knowledge on the relationship between service quality and customer loyalty has led concern that practicing managers in general, and managers in the banking sector in particular the managers have little in terms of guidelines to design and manage their strategies to control or improve customer loyalty as most studies have concentrated on the influence of customer satisfaction on customer loyalty. Changes in customer need, lifestyle, intellect and self concept has brought about problem in the banking sector. This suggests that it is important to understand service quality and its influence on customer loyalty. Most studies have however focused on the influence of customer satisfaction on customer loyalty, this study, therefore, seeks to examine the implications of service quality on customer loyalty in the banking sector in Homa Bay County.

The main objective is to establish the implications of service quality on customer loyalty in the banking sector in Homa Bay County, Kenya.

The following hypotheses were tested during the study.

$H_{01}$ : There is no relationship between service quality and customer loyalty

$H_{11}$ : Service quality has effect on customer loyalty

### ***Literature review***

This section reviewed both theoretical and empirical literature relating to the determinants of customer loyalty in retail banks. The moderating role of customer personality was also reviewed.

This section reviewed both theoretical and empirical literature relating to the service quality and customer loyalty in retail banks.

### **Concept of Customer Loyalty**

According to Baker (2004) the term customer loyalty is used to describe the behavior of repeat customers, as well as those that offer good ratings, reviews, or testimonials. Some customers do a particular company a great service by offering favorable word of mouth publicity regarding a product, telling friends and family, thus adding them to the number of loyal customers. However, customer loyalty includes much more. It is a process, a program, or a group of programs geared towards keeping a client happy so he or she will provide more business. Customer loyalty is all about attracting the right customer, getting them to buy, buy often, buy in higher quantities and bring you even more customers. However, customer loyalty is built by keeping touch with customers using email marketing, thank you cards and more, treating the employees well so they treat the customers well, showing that the institution cares and remembering what customers like and don't like, building it by rewarding them for choosing the institution over the competitors and finally building it by truly giving a damn about them and figuring out how to make them more success, happy and joyful (Kotler,2006)

Ibid (2006) customer loyalty can be achieved in some cases by offering a quality product with a firm guarantee. Customer loyalty is also achieved through free offers, coupons, low interest rates on financing, high value trade-ins, extended warranties, rebates, and other rewards and incentive programs. The ultimate goal of customer loyalty programs is happy customers who will return to purchase again and persuade others to use that company's products or services. This equates to profitability, as well as happy stakeholders. The concept of customer loyalty is anchored on the theory of consumer behavior which is the study of when, why, how, and where people do or do not buy a product. It blends elements from psychology, sociology, social anthropology and economics. It attempts to understand the buyer decision making process, both individually and in groups. It studies characteristics of individual consumers such as demographics and behavioral variables in an attempt to understand people's wants. It also tries to assess influences on the consumer from groups such as family, friends, reference groups, and society in general. Customer behaviour study is based on consumer buying behaviour, with the customer playing the three distinct roles of user, payer and buyer. Consumer behavior includes motivational theory, personality theory, and consumer behavior model among others. There are various dimensions of customer loyalty like the service quality, service features and customer complain handling.

Loyal customers are more likely to give information to the service provider (because they trust the service provider and expect from the service provider to use the information with discretion and to their benefits). Managing loyalty is important because it means not only managing behaviour but also managing a state of mind. Most research on customer loyalty has focused on brand loyalty; on the other hand, a limited number of researches on customer loyalty have focused on service loyalty. It is argued that the findings in the field of brand loyalty did not generalize to service loyalty for the following reasons: service loyalty is dependent on the development of interpersonal relationships as opposed to loyalty with tangible products, in case of services, the influence of perceived risk is greater and intangible attributes such as confidence and reliability are the important factors to maintain the customer loyalty in the service context (Dick & Basu, 2004). He also identified the two dimensions of loyalty (relative attitude and repeat patronage behaviour) and four categories of loyalty which include loyalty (positive relative attitude, high repeat patronage), latent loyalty (positive relative attitude, but low repeat patronage), spurious loyalty (low relative attitude, high repeat patronage), and no loyalty (low on both dimensions). Ndubisi & Pfeifer (2005) pointed out that the cost of serving a loyal customer is five or six times less than a new customer. This statement shows the importance of customer loyalty. He mentioned that it is better to look after the existing customer before acquiring new customers. Gee *et al.* (2008) stated the advantages of customer loyalty which include the service cost of a loyal customer is less than new customers, they will pay higher costs for a set of products and for a company a loyal customer will act as a word-of-mouth marketing agent. The determinants of customer loyalty are service quality, service features and customer complaint handling process as discussed in the foregoing sections.

### **Service Quality**

Service quality involves a comparison of expectations with performance. According to Zeithaman & Bitner (2003) service quality is a measure of how well a delivered service matches the customers' expectations.

Generally the customer is requesting a service at the service interface where the service encounter is being realized, then the service is being provided by the provider and in the same time delivered to or consumed by the customer. The main reason to focus on quality is to meet customer needs while remaining economically competitive in the same time. This means satisfying customer needs is very important for the enterprises to survive.

The outcome of using quality practices include understanding and improving of operational processes, Identifying problems quickly and systematically and establishing valid, reliable service performance measures and measuring customer satisfaction and other performance outcomes. Service quality can be related to service potential, service process or service result, in this way for example, potential quality can be understood as the co-worker qualification, process quality as the speed of the generated service and result quality as how much the performance matched the customers' wishes.

The service quality dimensions as stated by Parasuraman, Zeithaml & Berry (2005) include Tangibles that is the physical evidence of the service: appearance of physical facilities, tools and equipments used to provide the service, appearance of personnel and communication materials, secondly is reliability which is the ability to perform the promised service dependably and accurately: consistency of performance and dependability, service is performed right at the first time, the company keeps its promises in accuracy in billing and keeping records correctly, performing the services at the designated time, third is the responsiveness that is the willingness and/ or readiness of employees to help customers and to provide prompt service, timeliness of service: mailing a transaction slip immediately, setting up appointments quickly, fourth is assurance which is the knowledge and courtesy of employees and their ability to convey trust and confidence: competence (possession of the required skills and knowledge to perform the service), courtesy (consideration for the customer's property, clean and neat appearance of public contact personnel), trustworthiness, security (safety and confidentiality), lastly is empathy that is the provision of caring, individualized attention to customers: informing the customers in a language they can understand, Understanding customer's specific needs, Providing individualized attention.

The interrelationships between service quality, customer satisfaction and customer loyalty may provide creative ideas for improving services in order to gain a competitive advantage in the retail banking sector. Service quality is one of the critical success factors that influence the competitiveness of an organization. A bank can differentiate itself from competitors by providing high quality service. Service quality is one of the most attractive areas for researchers over the last decade in the retail banking sector. In the banking sector, a bank can have strong bargaining position due to the significant growth of the banks. Therefore, banks have to provide service carefully because of the availability of many banks and micro finance institutions offering same services to the customers. Banks have to improve the service level continuously. There is no guarantee that what is excellent service today will also be applicable for tomorrow. To survive in the competitive banking industry, banks have to develop new strategies which will satisfy their customers. That is why service marketing and bank marketing are important areas in the marketing literature (Beryl & Brodeur, 2007)

In this case, word of mouth (WOM) advertisements are important for the banks. Baker (2004) argued that the customers who are satisfied tell others about their experiences and this increases WOM advertising. In this way, banks can increase customers, that is, the customer is the king. High customer satisfaction is important in maintaining a loyal customer base. To link the service quality, customer satisfaction and customer loyalty is important. High quality of service will result in high customer satisfaction and increases customer loyalty while profit and growth are stimulated primarily by customer loyalty and loyalty is a direct result of customer satisfaction.

A concept which is very closely related with satisfaction and loyalty is perceived quality, and the differences between these have not always been very clearly defined. They have been used on occasion in an indistinct manner. In an attempt to clarify the distinction between satisfaction and perceived quality, Anderson & Sullivan, (2007) consider that satisfaction requires previous consumption experience and depends on price, whereas quality can be perceived without previous consumption experience and does not normally depend on price. However, in circumstances where there is little available information or where quality evaluation is difficult, price can be an indicator of quality.

In this sense, they developed a conceptual model of service quality and service satisfaction and concluded that these constructs are distinct and have different determinants. 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.

Delivering a broad range of service products is very important in the banking industry because of the intensive competition between financial and non-financial institutions. Shapiro (2003) suggests that a key determinant in attracting customers is the diversity of features of service products introduced to the marketplace via different technology mediums, it is necessary for banks to 'offer certain types of financial products, such as 24 hours ATM self-service, phone, and internet banking. These developments provide customers with unlimited access to financial service products and offer them a wider range of choices than before. Gerrard & Cunningham (2000) conclude that service products combined with high technology can attract the customers who are techno-seekers to the more innovated banks, which offer a quick, convenient, and higher quality service. Alternatively, the less innovated banks which cannot offer these types of delivery method effectively may cause customers to switch banks.

In the foregoing literature, it is apparent that most researchers have concentrated on the relationship between service quality and customer satisfaction which has not improved customer loyalty in the banking sector, hence this study seeks to establish the relationship between service quality and customer loyalty in banking sector.

### **Methodology**

This section discusses the methods and procedures used to address the research problem relating to the tenuous link between service quality and customer loyalty. In this regard, the main objective was to establish the implications of service quality on customer loyalty in Homa Bay County, Kenya. The research methods and procedures to achieve the research objectives of the study, therefore, encompasses the research design, the study area, the target population, sampling frame, type of data collection instrument, data collection procedures, operationalization of key variables, reliability and validity and analytical techniques used in this study.

Several frameworks have been used in consumer behavior research. The dominant paradigms among these frameworks include the work of the following scholars; (Sullivan, 2007; Ahmed & Gul, 2006; Hashash, 2008; Ramzi, 2010). These researchers have generally fallen into the four paradigms which include, functionalism, radical, humanism, radical structuralism and interpretative. The prevalent paradigms in the consumer behavior are interpretative and functionalist. In this regard the literature identifies two extremes points of view in the research methodology, that is, quantitative and qualitative. Researchers favoring the quantitative approach claim that there is similarity between social and natural phenomena and that, therefore, similar methods can be used to study both phenomena. Due to this point of reference, they favor the positivistic quantitative methodology in social science research

The study was conducted in Homabay County which has a population of 4.260m according to the data from census 2010. The target population consisted of customers from the banks in Homabay County. These banks include Equity, Barclays, Kenya Commercial Bank and Cooperative Bank. The banks are distributed in the major towns of Homa Bay County mainly Ndhiwa, Mbita, Sindo, Kendu Bay and Homa Bay. The total banking population rounded off to the nearest thousand is 845,000 (Plan International Study, 2010) with Barclays having 270,000, Cooperative bank, 200,000, Kenya Commercial bank, 155,000 and Equity, 220,000 customers.

### **Sampling**

Using Yamane (1967) formula, a sample size of four hundred respondents were selected from the population shown on the page that follows. This sample size is supported by Amin (2005) that population size beyond a certain point ( about N=5,000), the population size is almost irrelevant and the sample size of 400 is adequate.

Population	Confidence level	Sampling error
845,000	95	.05

**Table 1: How to arrive at the proper sample size**

$$n = \frac{N}{1 + N(e)^2}$$

Where N=Population, e=expected error

$$\text{Sample size} = \frac{845,000}{1 + 845,000(.05)^2} = 399 \neq 400$$

Samples were selected using stratified random sampling whereby banks were put into four strata. By using Fisher's formula, the sample were drawn from each stratum and a total of 130 samples were drawn from Barclays, Equity 95, Cooperative bank 105 and Kenya Commercial bank using simple random sampling where customers were randomly selected in the banking hall as shown in table 2 below. This gave a total of 400 samples.

## Data Collection

### Sources of Data

Primary data was collected using self administered questionnaire on the banks customer loyalty determinants, customer loyalty and customer personality. Banks' brochures and Central bank's Report was reviewed to extract secondary data.

### Data collection procedure

The questionnaire was administered following the total design method generally with pre-notification correspondence and a personal hand delivery survey instrument with the help of five research assistants. In order to enhance response rate and response quality, the researcher and research assistants then personally made to the banks to seek permission from the branch managers to allow the research assistants to collect data from their customers. The respondents were randomly sampled to give the customers equal chance of being selected as a sample.

### Instrument for Data Collection

A quantitative methodology was used to determine the variables that influence customer loyalty. The instrument used to gather the data self administered questionnaire. The structure of the questionnaire was both open ended and itemized ranking scale of 1-5, that is, from strongly agree to strongly disagree. Open ended questionnaire enabled respondents to not only respond to questions asked but also be free to engage in some discussion of whatever issue of significance to the research topic.

Reliability refers to the extent to which an experiment, test or any measuring procedure yields the same results on repeat trials. For this study, questionnaire was formally pre-tested on 50 respondents from all the four banks during a meeting at the Automated Teller Machine (ATM). Their suggestions were evaluated by the researcher and the questionnaire was further modified.

The validity of a measure is defined as the extent to which a construct or a set of measures correctly represents the concept of the study, and the degree to which it is free from any systematic or non random error (Nunally, 1978). Researchers assert that no single statistic offers general index of validity of the measurement made.

The study used regression analysis of data. The need to identify any violation of the underlying assumptions of linear is emphasized in research. The following assumptions are considered necessary if conclusions can be drawn about a population on the basis of a regression analysis done on the sampled data. These assumptions relate to the type of variables, homoskedasticity, linearity, normality of residuals and multicollinearity.

This study used variables that are scalar variables. In addition customer loyalty, the dependent variable is unbounded.

This is a condition found in a type of scatter graph; also known as a constant variance or homogeneity of variance. It is characterized by variances which do not differ greatly between distributions. Homoskedasticity requires that the dependent variable exhibit equal levels of variance across a range of predictor variables. A plot of standardized differences between the observed data and the values predicted by the regression model against the standardized predicted values of the dependent variable was used to assess whether the assumption of random error and homoscedasticity had been satisfied. This was for the composite measure customer loyalty, the dependant variable

Data analysis involved correlation and regression analysis. Pearson correlation analysis was conducted to determine the direction, strength, and significance of the Bivariate relationships between service quality and customer loyalty as shown in the model 4.1.

$$Y = a + b_1X + e(1) \dots$$

**4.1**

Where Y is the dependent variable, X is the independent Variable, a is a constant and e is the error term and  $b_1$  are the regression coefficient

**Results and Findings**

This section presents the results of the statistical analysis carried out on the variables discussed in the foregoing sections. The study investigated the relationship between service quality and customer loyalty.

**Service Quality and Customer Loyalty among Customers in Banking Sector**

The first objective of this study was to determine the effect of service quality on customer loyalty in the banking sector in Homa Bay County. Service quality was measured through trustworthiness of the bank, character and habits of staff, and efficiency of services as perceived by the customers. Data on this objective was collected from those that had changed banks as well from those that had not changed bank in the last three years. Data from the two groups of respondents were analyzed using a regression analysis and the results summarized in this sub section were obtained.

**Table 2**

Statistics of Simple Regression of Service Quality and Customer Loyalty – Customer who changed Banks

Determinant	Constant	Coefficients		R values/proportions			Std. $\epsilon$	F statistic		t-statistic		Sig.
		B	$\beta$	R	$R^2$	Adj. $R^2$		$F_o$	$F_c$	$t_o$	$t_c$	
Service Quality	71.637	-.247	-.258	.258	.066	.055	24.01	5.556	3.960	-2.357	1.930	.021

Note. B is un-standardized coefficients,  $\beta$  is standardized coefficients; R is multiple correlation coefficient,  $R^2$  is the proportion of the total variance,  $R^2$ -adjusted is improved approximation of  $R^2$ ; Std  $\epsilon$  is standard error of the estimate,  $F_o$  is the observed ANOVA statistic,  $F_c$  is critical ANOVA statistic  $F_{(1, 78; 2, 77)}$ ;  $t_o$  is observed t statistic,  $t_c$  is critical t statistic  $t_{(78, 77)}$ ;  $\alpha = .05$ .

Table 1 shows the statistics for regression of service quality and customer loyalty. The row of service quality provides statistics of the regression of service quality and customer. The table shows that overall regression model is significant ( $F_o = 5.556 > F_{(1, 78)} = 3.960$ ;  $\alpha_o = .021 < \alpha_c = .05$ ). The t values also indicate a significant association ( $t_o = 2.357 > t_{(78)} = 1.930$ ). This led to the rejection of the hypothesis that service quality has no significant effect on customer loyalty in the banking sector in Homa Bay County. The study therefore established that service quality is a significant determinant of customer loyalty in the banking sector in Homa Bay County.

The adjusted R square statistic (Adj.  $R^2 = .055$ ) indicates that service quality accounts for 5.5% of the variance in customer loyalty in the banking sector in Homa Bay County. This leaves about 94.5% to other factors including errors in the measurements. Since service quality is significant predictors of customer loyalty, it was possible to build prediction model of customer loyalty using the constant and B value such that  $CL^1 = 71.637 - .247SQ$ ; where  $CL^1$  was the predicted customer loyalty, and SQ the status of service quality. Hence it is possible to increase customer loyalty in the banking sector in Homa Bay County by about 5.58% through quality of service.

**Service Quality and Customer Loyalty – Loyal customers**

Data on service quality and customer loyalty from the 320 respondents who had not changed banks in the last three years were analyzed using regression analysis and the results summarized in Table 2 were obtained.

**Table 3 Statistics of Simple Regression of Service Quality and Customer Loyalty- Loyal customers**

Determinant	Constant	Coefficients		R values/proportions			Std. $\epsilon$	F statistic		t-statistic		Sig.
		B	$\beta$	R	$R^2$	Adj. $R^2$		$F_o$	$F_c$	$t_o$	$t_c$	
Service Quality	70.024	-.202	-.220	.220	.049	.046	17.95	16.234	3.860	-4.029	1.980	.000

Note.  $B$  is un-standardized coefficients,  $\beta$  is standardized coefficients;  $R$  is multiple correlation coefficient,  $R^2$  is the proportion of the total variance,  $R^2$ -adjusted is improved approximation of  $R^2$ ;  $\text{Std } \varepsilon$  is standard error of the estimate,  $F_o$  is the observed ANOVA statistic,  $F_c$  is critical ANOVA statistic  $F_{(1, 318; 2, 317)}$ ;  $t_o$  is observed t statistic,  $t_c$  is critical t statistic  $t_{(318; 317)}$ ;  $\alpha = .05$ .

The table above shows the statistics for regression of service quality and customer loyalty on customers that had not changed their banks in the last three years. The row of service quality provides statistics of the regression of service quality and customer loyalty that had not changed banks in the last three years. The table shows that overall regression model is significant ( $F_o = 16.234 > F_{(1, 78)} = 3.960$ ;  $\alpha_o = .000 < \alpha_c = .05$ ). The t values also indicate a significant association ( $t_o = 4.029 > t_{(78)} = 1.980$ ). This led to the rejection of the hypothesis that service quality has no significant effect on customer loyalty in the banking sector in Homa Bay County. The study therefore established that service quality is a significant determinant of customer loyalty in the banking sector in Homa Bay County, even among customers that had not changed banks in the last three years

The adjusted R square statistic ( $\text{Adj. } R^2 = .046$ ) indicates that service quality accounts for 4.6% of the variance in customer loyalty among customers that had not changed within the last three years in Homa Bay County. This leaves about 95.4% of the variance in customer loyalty that have not changed banks in the last three years to other factors including errors in the measurements. Since service quality is significant predictor of customer loyalty that have not changed banks in the last two years, it was possible to build prediction model of customer loyalty using the constant and  $B$  value such that  $CL^1 = 70.024 - 0.202SQ$ ; where  $CL^1$  was the predicted customer loyalty that have not changed banks in the last three years, and  $SQ$  the status of service quality. This means that it is possible to increase customer loyalty that have not changed banks in the last three years in Homa Bay County by about 4.6% through manipulating quality of service. These findings suggest that service quality has significant effect on customer loyalty.

## Discussions of the findings

### The relationship between service quality and customer loyalty

The above section indicates that service quality has a significant effect on customer loyalty. The results are largely in line with the literature findings. First, it found that service quality is a significant determinant of customer loyalty in the banking sector, whether or not service features is moderated. This finding was supported by the findings of Beryl and Brodeur (2007) who pointed out that the interrelationships between service quality, customer satisfaction and customer loyalty provide creative ideas for improving services in order to gain a competitive advantage in the retail banking sector.

The findings are also supported by the views of Beryl and Brodeur (2007) that service quality is a critical success factors that influence the competitiveness; and that a bank can differentiate itself from competitors by providing high quality service. This was again supported by the views of Baker (2004) that loyal customers tell others about their experiences and this increases WOM advertising. This could lead to high customer loyalty which is important in maintaining a loyal customer base.

Nevertheless, as Gronroos (2000) pointed out earlier, a service must consist of a series of more or less intangible activities that normally, but not necessarily always, take place in interactions between the customer and service employees or physical resources or goods or systems of the service provider, which are provided as solutions to customer problems. It could be argued that commercial banks in Homa Bay have managed to do this very well. It seems, as Blackwell, Miniard & Engel (2006) points out, that they have made a global judgement or attitude relating to particular services; and created overall impression on customers of the relative inferiority or superiority of the organization and its services. The finding is supported by Bahia and Nantel (2000), while arguing that the SERVQUAL approach has not except from criticism, developed a new measurement for perceived service quality in Retail Banking, and proved that the dimensions of BSQ are more reliable than the dimensions of SERVQUAL.

## Conclusions and Recommendations

The study investigated the determinants of customer loyalty in the banking sector in Homa Bay County, but focused on four specific objectives. The previous sections presented the analysis and findings of the study based on the responses of 400 respondents were actually reached. This section presents summary of findings, and discusses those findings.

The section also draws conclusion and makes recommendations based on the findings and recommendations. The objective of the study was to determine the effect of service quality on customer loyalty in the banking sector in Homa Bay County; with service quality being measured from trustworthiness of the bank, character and habits of staff, and efficiency of services as perceived by the customers. The study established that service quality is a significant determinant of customer loyalty in the banking sector in Homa Bay County, accounting for 5.5% using the prediction model of  $CL^1 = 71.637 - .247SQ$ . But for those who had changed their banks, service quality accounts for 4.6% of the variance in customer loyalty, with a prediction model of  $CL^1 = 70.024 - 0.202SQ$ .

### **Conclusion**

The purpose of this study was to establish the determinants of customer loyalty in the banking sector in Homa Bay County. To realize this purpose the study investigated three specific objectives. But it is this purpose that the conclusion has to address. The study found out that service quality is a significant determinant of customer loyalty in the banking sector, whether or not service quality is moderated. Based on these findings, and on the discussion, the study concludes that quality of service is the single most significant determinant of customer loyalty among customers in the banking sector in Homa Bay County. This is because it is only that variable has a significant correlation with customer loyalty among customers whom had changed banks in the last three years and whom had not changed their banks for the same period. It is also the only variable that bias a significant  $R^2$  adjusted value among both groups of customers. Hence to retain customers in a bank, the beginning point must be on the trustworthiness of the bank, the character and habit of the staff and on the efficiency of service and the bank need to treat customer as an individual.

### **Significance of the study**

The study developed customer loyalty model which will enhance decision making among stakeholders in the service industry especially the banking sector to improve the customer loyalty.

### **Recommendations of the study**

The study findings can benefit the service industry in Kenya and especially the banking sector. However, in view of the findings and conclusions of the study, the following recommendations are of particular importance to the banking industry in Homa bay County.

### **Service Quality and customer loyalty**

Following the conclusion that service quality is a significant determinant of customer loyalty in the banking sector, The bank management should organize training and refresher courses for all bank employees on modules intended to develop trustworthiness among bank employees as well in the bank to develop the character and good habits among the bank staff. Such modules must also dwell on the means and ways on improving efficiency in the bank. Although customer service has been evaluated long time ago, but it is still one study that banks must continue to conduct in order to meet the changes in the banking industry. New technologies must be incorporated as a factor to measure service quality in future researches. Researches and related questionnaires must also be accommodated with the new banking requirements of the customer.

A clearer understanding as to the sequence of relationship between service quality, customer satisfaction and customer loyalty can help to ensure better targeting of customer using limited marketing resources

### **Recommendation for further study**

The study takes note of the fact that data collection was done based on the views of the customers per se rather than on the actual data based on manipulation of variables. In actual sense, the study did not manipulate service quality, or service features and neither did it manipulate complaint handling procedures. As such the study cannot claim to have established the effect of these variables on customer loyalty as such a decision would require an experimental design. This study therefore recommends that an experimental study be conducted to determine the actual effect of these variables on customer loyalty among customers in the banking sector not only in Homa bay County, but in the banking sector as a whole. This study should form a basis for that study.

### **Limitation of the study**

The researcher met respondents at the ATM (Automated Teller Machine) as they carried transactions hence there is possibility of duplication of respondents.

The second limitation is that the study focused only on the banks in Homa bay County. This focus on a single region may make the results not generalizable to other banks or the banking sector in general. However, confining the study to banks in a single regional setting conferred the obvious advantage of control effects as the customers are exposed to same economic environment. It is possible that such focus could better illuminate the interrelationships customer loyalty determinants, customer personality and customer loyalty.

A final limitation encountered during the field survey was that respondents were hesitant to give free view about their loyalty to the bank fear of implicating a staff. The researcher deems this issue as not adversely affecting the results of the study.

### **Suggestions for Further Research**

Directions for future research are consequent to the study findings on customer loyalty determinants, customer personality and customer loyalty. There are also implication for further research emanating from missed opportunities in using the stratified random sampling rather than simple random sampling research methodologies and techniques. The interesting study findings depicting insignificant effects of customer personality on the relationship between customer loyalty determinants and customer loyalty, particularly for service features and complaint handling is an avenue for further research in the banking sector in Kenya. It has effective implications for consumer behaviour theory. With regards to methodological issues, avenues for future research are equally numerous. This study employed as survey design. Future studies could adopt more fine-grained methodologies such as field research and case studies using qualitative designs or even combine case-study with survey methods. Such diversity in studies may provide deeper insights into the customer loyalty determinants, customer personality and customer loyalty interrelationships. Furthermore, the adoption of a longitudinal design could be useful to explain how customer loyalty are affected over time by customer attitude, perception, cultural and general economic conditions, and this could shed light better on the cause-and-effect relationships between customer loyalty determinants and customer loyalty.

The literature suggests that there exists a weak link in customer loyalty determinants and customer loyalty, implying failure in past research to focus on the appropriate contextual variables. This theory-validating research showed that customer personality moderates the relationship. The major implication of this is that banks have varying strategies to sustain customer loyalty and also confronted with diverse internal and external contexts. Consequently, banks seeking superior customer loyalty need to align their service quality, service features and complaint handling to their customer loyalty strategies. Lastly, this study focused on the banking sector in Homa bay County general and did not focus on other area where banks are more stabilized as opposed to a growing town. It is recommended that future studies focus on more developed town and cover many banks as opposed to the four banks which were covered in the study.

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