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Relationship between Service Quality and Customer Retention in the Selected Commercial Banks in Eldoret Town, Kenya

Evans K. Kiprotich

Lecturer, School of Business and Economics, University of Eldoret, Kenya

Thomas K. Cheruiyot

Professor and Dean, School of Business & Economics, Moi University, Kenya

Tanui Emmanuel

Lecturer, School of Business and Economics, University of Eldoret, Kenya

Abstract:

Customer attraction and retention is an important element of banking strategy in today's increasingly competitive environment. Bank management must identify and improve upon factors that can attract customers and their defection. The study was undertaken with a purpose to investigate the influence of service quality and customer retention in the selected commercial banks in Eldoret town, Kenya. The study employed an explanatory survey design of selected banks. This study was a survey of selected banks in Eldoret town and purposive sampling technique was used to select nine banks. The targeted population was 225 respondents and simple random sample technique was used to select 20 customers and 5 employees from each bank. The questionnaires were used to collect information from the respondents. Data collected was analyzed using descriptive and inferential statistics. The Adjusted R square = .676 and this indicated that the customer retention was affected by their service (63.9%). This implies that 63.9% of the loyal customers are there because they are satisfied with the quality of services offered by the commercial banks in Kenya. There was a strong relationship between service quality of the banks and customer retention. It is implied that banks should avoid overcharging and inconveniencing customers, service failure and treat customers fairly. The study recommends that; banks should avoid overcharging, avoid inconveniences, avoid service failure, treat them in caring way, compete with their competitors to improve services, be responsive to complaints, adopt a customer focused approach and practice accountability.

Keywords: Service Quality, Customer Retention, service rate, Employees Hospitality, and Service quality

1. Introduction

In today's world an intense, firm competition, gives the opportunity for it to offer a higher quality services. This creates a satisfied customer who is important to sustainable competitive advantage. The customer satisfaction is a significant competitive advantage factor in future firm's profitability. A customer satisfaction always drives firms towards improving their business reputation and image. This occurs through a reduced customer turnover and rise in attention towards satisfaction of customer needs. It helps firms create barriers by switching, and improving business relationships with their customers.

Heightened customer expectations and service customization have made service quality essential to an organization's success in many markets, (Parasuraman, Berry and Zeithaml 1991). A good service quality has traditionally meant that output conformed to the specifications set by process designers. The concept of service quality included the uniformity of service outcome from the around an ideal (target) value determined by the customer.

Parasuraman et al., (1985) argues that services differ on the way they are produced, consumed, and evaluated. Services are heterogeneous, and its performance varies from producer to customer in everyday activities. The production and utilization of services are inseparable. The quality in services occurs through service delivery and interaction between a customer and a service provider. Customers establish service quality using the outcome and process of service delivery. A service provider performs an offer their expectations of service performance.

Past research examining service quality and customer retention have been limited and focused on end consumers rather than on business customers (Lam and Burton, 2006). Ennew and Binks (1996), argues the provision of quality bank service influences customer's choice of a banking partner. The personalization in the service delivery process, quality of the advice, credit offered and competitive rates and fees are the determinants quality characteristics customers' choice and retention of a bank service. However, whether these same characteristics are considered important by customers in Kenya is an arguable point.

Service quality and customer satisfaction is considered in intertwined constructs from a root of marketing theory and practice. Matzler and Sauerwein (2002), argues Critical Incident Technique (CIT) as a determinant factor customers believe to have a

significant impact on their satisfaction or dissatisfaction. The use of CIT, determinants associated with dissatisfaction and significantly differs from satisfaction. They are requirements that cause dissatisfaction if not fulfilled and do not lead to customer satisfaction if fulfilled or exceeded. The fulfillment factors are necessary, but not sufficient to create satisfaction.

Rust et al., (2002) consider how financial returns from quality improvements arise from revenue expansion, cost reduction, or both. On the basis of their empirical work, they conclude that firms that adopt primarily a revenue increase emphasis perform better than firms that adopt a cost reduction emphasis or a combination strategy (Zenithal, 1999).

Kotler (2000) in his study argues that customer's needs should be identified and then analyzed so as to understand which afterwards it will be satisfied. This study highlighted the importance of identifying and knowing the customers' needs. However, it failed to show the benefits of customer retention to the organization. Kamakura, Vikas Mittal, de Rosa, and Mazzon (2002), focused on customer acquisition and argued that organizations should establish a customer base which will involve the firm segmenting its customers and then build a strong relationship in the organization. This study however failed to give the best program which can be used to retain its customers and develop its relationship.

Reinchild, (1990) focused on employee training on customer retention and customer handling so as to have a satisfied customer and make them repeat purchase. He further pointed that employee training on customer is the best way of maintaining customers. Selection and recruitment also plays a significant role in getting a customer oriented employees. This study failed to show the role of customer retention in enhancing organizational competence.

Customers in every organization are the first organizational assets which it must be taken care of because it determines the organizational profitability. The organization should be prepared to handle a wide range of customer interactions. It is a service provider task to ensure customer feels well treated and cared for in every step of the way. Every organization should bear in mind that the customer is the kind that depend on them. There are a number of indicators underlying the service quality construct of any firm and varies depending on the client group and industry under investigation. The service quality needs to be determined using the requisite mindset of the SME banking market Eldoret, Kenya. The purpose was to establish how service quality influences customer retention in the selected commercial banks in Eldoret town, Kenya.

2. Methodology

The study employed an explanatory survey design of selected banks. This approach sought to collect data in an attempt to establish the influence of service quality on bank customer's retention. This research design makes inferences about relationship among variables (Paton, 2000). In this study, variables were investigated without any manipulation or alteration and descriptive methodologies were used in exploring the service quality issues in the banking sector. This enabled the researcher to collect information efficiently through questionnaire.

The targeted population was 225 respondents, and simple random sample technique was used to select 20 customers and five employees from each bank. Questionnaires used to collect data. The use of primary research method (questionnaire) helped the researcher to assess the current situation as it is in the financial institution. This method preferred because it allows for the explanation of human behavior, attitudes, values and characteristics. This study was carried out in nine selected banks in Eldoret Town. Eldoret town has got more than 21 Banks, and it forms one of the biggest Business hubs in the region. All of these Banks offers diverse banking products that suits different classes of customers. Data was analyzed using both quantitatively and qualitatively techniques. Data collected analyzed using descriptive and inferential statistics.

3. Results

3.1. Customers' view on influence of customer preference and expectation

The results on the preferences and expectations of the customers were sought during the study as summarized in table .

Service	Mean	S.d	Chi-Square	df	Asymp. Sig.
Terms and conditions negotiated	4.60	.821	309.83 ^a	4	.000
Service, physical activities and staff accessible	4.14	.861	151.42 ^b	4	.000
Information, advice and support on potential funding available	4.44	.502	84.64 ^b	4	.000
Customers' complaints constructively dealt with	4.30	.465	145.29 ^b	4	.000
Willing to defend and Fight for customers rights	4.21	.412	104.53 ^c	4	.000
Flexible service provided	4.49	.506	147.28 ^d	4	.000
Complete and accurate information provided	4.09	.750	241.42 ^e	4	.000
Secure and accurate customers records	4.16	.531	75.87 ^b	4	.000
Bank environment enables customers take responsibility	4.05	.575	240.55 ^b	4	.000
Specific opportunities and support for customers	4.00	.000 ^a	63.77 ^b	4	.000
Services provided with clearly stated terms	4.19	.394	201.42 ^b	4	.000
Required number of staff	4.05	.615	166.69 ^b	4	.000
Services provided to meet customers changing needs	4.44	.502	153.47 ^b	4	.000
Dependable service that does not vary over time	3.93	.799	126.52 ^b	4	.000

Service	Mean	S.d	Chi-Square	df	Asymp. Sig.
Behaviour of staff makes customers confident	4.44	.502	118.32 ^b	4	.000
Up-to-date physical facilities	4.19	.664	94.93 ^b	4	.000

Table 1: Customers' view on influence of customer preference and expectation

Majority of the customers, (f=159, 93%) agreed that terms and conditions of the right to service were negotiated while (f=12,7%) disagreed. one hundred and forty customers representing 81.8% agreed that the service, physical activities staff and communication facilities were accessible to them while (f=12,7%) disagreed. majority of the respondents, (f=120,70.1%) agreed that information, advice and support on potential funding sources were available to them while (f=37,21.6%) disagreed. Majority of them, (f=113, 21.6%) agreed that accurate and secure records were maintained while (f=36, 31%) disagreed.

The results imply that the preferences and expectations of the customers were met in their banks and therefore the banks are able to retain them over long periods of time. The Chi square results showed that customer view on influence of customer preference and expectation was significant. The results imply that the preferences and expectations of the customers were met in their banks and therefore the banks are able to retain employees over long periods of time.

3.2. Regression Analysis

Regression analysis was carried out using multiple regression models, which combines selected independent variables with the customer retention being dependent variable. Variables such as service rate charged, and customer preference and expectations as predictors representing the independent factors as shown in table 2 below. R represents the values of multiple correlation coefficients between the predictors used in the model and customer retention. The R² represented the measure of variability in customer retention that is accounted for by the predictors (independent variables). From the model, (R² = .676) shows that all the predictors account for 67.6% variation for customer retention. Therefore, the predictors used in the model have captured the variation in the customer retention.

The adjusted R² gave the idea of how well our model generalizes and ideally, its value would be the same or very close to R². In our case the value of adjusted R² is .639, showing that if the data was derived from the population rather than the sample it would account for approximately 63.9% less variance in the customer retention. The change statistics were used to test whether the change in R² is significant using the F ratio. Model caused R² to change from zero to .676 and this change give rise to an F ratio of 18.27, which is significant at a probability of .05

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	.822 ^a	.676	.639	.487	.676	18.272	4	35	.000

Table 2: Model Summary

- a. Predictors: (Constant), service rates, level of hospitality, service effectiveness, technology used and customer/expectations
- b. Dependent Variable: Customer Retention

The Standardized Beta Coefficients give a measure of the contribution of each variable to the model. A large value indicates that a unit change in this predictor variable has a large effect on the criterion variable. The t and Sig (p) values give a rough indication of the impact of each predictor variable – a big absolute t value and small p value suggests that a predictor variable is having a large impact on the criterion variable.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.790	1.825		2.884	.052		
	Service rates	.178	.062	.306	6.208	.007	.545	1.834
	Customer preference /expectations	.758	.632	.420	1.235	.002	.816	1.225

Table 3: Coefficient of the Predictor Variables

- a. Dependent Variable: Customer retention

4. Discussion

From the model, (R² = .676) and this showed that all the predictors account for 67.6% variation for customer retention. This findings concurs with Ennew and Binks (1996), that the provision of quality bank service influences customer's choice of a banking partner. Service quality and customer satisfaction is considered in intertwined constructs from a root of marketing theory and practice. Also it concurs with Kotler (2000) that customer's needs should be identified and then analyzed so as to understand which afterwards it will be satisfied. This study highlighted the importance of identifying and knowing the customers' needs.

The findings agreed with Reinchild, (1990) that employee training on customer is the best way of maintaining customers. Selection and recruitment also plays a significant role in getting a customer oriented employees. Customers in every organization are the first organizational assets which it must be taken care of because it determines the organizational profitability. The organization should be prepared to handle a wide range of customer interactions. It is a service provider task to ensure customer feels well treated and cared for in every step of the way. Every organization should bear in mind that the customer is the kind that depend on them.

5. Conclusion

From the study findings it can be concluded that customers prefer banks that charge low interest rates, has less paperwork, look into customers needs within a short period, offers loans to customers, consider improving on communication style provision dimensions. It can also be said that the banks offer reliable services, implements its service charter, service delivery plan is communicated to service delivery group; periodic internal reviews are conducted internally to address accomplishments and results of services. The banks reviews are conducted on outcomes to address accomplishments and results of services. It was also revealed that the banks are putting effort to improve their service effectiveness by honouring their promises, established service quality, and ensures service availability, makes follow ups, conducts audits, organizes feed surveys, reviews performance and makes recommendations.

According to the customers the banks have ensured terms and conditions of customers rights are negotiates, the services, physical facilities, equipments, staff and communications materials are accessible to customers. From employees view the banks have an up-to-date facilities that are flexible services that are provided to meet customers' needs. In recent times many organizations have come to the realization of the importance of the retaining customers as it increases the organization's performance and productivity. In order to reap the full benefits customer retention

6. Recommendations

The banks should avoid overcharging its customers (high price, unfair pricing, deceptive pricing) in order to keep its existing customer base, customers prefer banks with network throughout the country the banks should increase their base.

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