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Effects of Service Quality on Customer Loyalty in the Banking Sector, Nairobi County, Kenya

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Abstract:

Today's changes in Global business environment pushes banks to engage into more strategies apart from marketing in order to ensure a lasting impression is created to the customers on their unique products to ensure that they are loyal to the companies. Commercial banks in Kenya offer homogeneous products to the customers thus the need to ensure that their products stand out among their competitors. Commercial banks have failed to maintain their existing customers largely due to the increased competition amongst each other and also providing homogenous products which are not uniquely distinguished from each other; they therefore are instead forced to engage in costly campaigns for attracting new ones. Based on this background, the study examined the effects of service quality on customer loyalty in commercial banks relying on sensory approach, relationship marketing and cognitive approach theories to draw on its objectives. The study was conducted amongst commercial banks in Nairobi County. The study applied both descriptive and explanatory research designs to achieve the set objectives. The study utilized primary data. The target population was 156 customers of three commercial banks branches within Nairobi County. A sample of 144 customers was taken using both stratified and simple random sampling methods. The data was analyzed with the aid of the SPSS statistical package through the application of ordinary least square method.

Keywords: Service quality, customer loyalty, Brand awareness, Covid 19

1. Introduction

Banking industry worldwide is really transformed due to the changes in global business and marketing environment (Bello, 2005). This has been escalated by the onset of COVID-19 pandemic which has threatened the economies around the globe and sustenance of businesses especially the service industry. Changes in global market have resulted immensely to stiff competition among financial institutions. An institution that accepts deposits, gives loans and conducts payment is referred to as a bank. The major goal of the financial institutions is to ensure that they maximize profits and yet have a loyal vast customer base.

In this decade and time many organizations and companies are challenged daily in ensuring that customers remain loyal to them, capture others and ensure that they are sustained. The intensity of competition among businesses has created an overhead of new customers which has made it possible for many markets to achieve their maturity level (Kotler & Armstrong, 1999). This trend doesn't exclude the banking industry, thus the need for banks to establish strategies to ensure customers are loyal (Ehigie, 2006). There have been variations amongst the finance organization in their operations due to various factors. Therefore, it is a prerequisite for bank institution to continually monitor their environment to identify any triggers that may influence their operations. With the increase in technological use and knowledge, customers have a pool of information on the kind of service they require and expect in terms of preference and quality thus requiring the companies to keep up with the customers preference and their needs (Mukule, 2006). Bank managers have a role in ensuring that they have a productive and engaging relationship with their customers by understanding their needs, to avoid them switching to other banks. Due to competitiveness in the industry, companies cannot only focus on attracting and capturing new customers but also must strategize on ensuring that the existing customers are loyal to the banks. Satisfying customers is no longer enough, customer service industry should venture into other new ways to flourish and ensure the loyalty of the customer.

For the banking sector to diversify and expand, excellent services to the customers through provision of high standard and quality services resulting to satisfaction among the shareholders and the employees has to be in place. Great changes have been evidenced in how the banks operate with which the change has been initiated by the customers with their demand of excellent services. With the availability of many banking institutions, customers are not willing to be shortchanged, and only want the best of the best. Consumers make decisions not only on what they want to buy but also whether they will be making repeated purchases to the provider over time or not. Attracting new customers has been identified in marketing literature as a key ingredient for organizations' survival but it is also an expensive task. Resultantly, organizations have had to strike a balance in profitability of the organization and retaining the customer base result, through formulation of strategies that achieve both (Zeithaml and Bitner, 2003).

1.1. Statement of the Problem

In Business setting today, business competition has increased more so in the banking sector, mainly because of the high-level business diversification policies and technological development of Kenya. This has made it challenging for the companies to sell their products thus encounter difficulties in retaining the existing customers (Macdonald & Sharp, 2006).

Public and private banking sector has faced major challenges in attracting and ensuring customer loyalty. The success of these banks and their survival is dependent on the customer base creation that they have and the abilities to retain them to ensure long run success. This changes the goal focus of the commercial banks in Kenya from having transactions that are short-lived to a longtime relational transaction which is aims at developing customer loyalty. Additionally, the onset of COVID 19 pandemic has shifted how the businesses operates demanding them to adopt advanced strategies to retain their customers, in a time most businesses have closed down and collapsed.

Studies on various scholars on customer loyalty has been put in different contexts for instance a study by Muturi (2004), posited that, the major factors that influence customer loyalty of mobile phone users in Nairobi are service quality, price indifference and perceived value. Tanui (2007) suggested that customer loyalty of petrol stations in Nairobi was influenced by attractiveness of the brand, personality and service quality. Mungai (2008) found out that customer loyalty of the port of Mombasa was influenced by; Customer Satisfaction, perceived quality and brand loyalty. Considering the discussions that have been before and the succeeding paybacks that comes with customer loyalty; slight research has been carried to obtain the knowhow of customer loyalty in banking industry. This therefore creates the need to do a study on the effects of service quality on customer loyalty in banks in Kenya and provide information to the managements of commercial banks in understanding attributes of service quality on equity on customer loyalty.

1.2. Objective of the Study

To find out the effect of service quality on customer loyalty in banking sector, Nairobi County

1.3. Theoretical Review

Relationship Marketing Theory (RMT) was postulated by Homans, 1958. In this theory, human relationships are created first by analyzing the cost benefit of the relationship and comparing to the available alternatives. The theory posits that if one perceives the expected benefits are less than the cost of the relationship, the person dismisses the relationship. The theory suggests that when a person gives much to others, they also try to get much from them too and the one who receives much is always under pressure to give much too.

Developing relationship marketing among consumers is through a series of mutual agreements and coming up with a pattern that reciprocates to both parties. Relationship marketing theory illustrates that individuals are more than willing to enhance relationships that are rewarding. Individuals will sacrifice their benefits voluntarily, with the expectation of gaining more in the future. Thibaut and Kelly (1959) depict those human beings stay in a relationship based on the relations they have currently, what they used to have before and the possible different choices available.

The degree to which an individual commit to a relationship is determined comparing expected outcomes both socially and economically and other available choices. Service counters provide a medium for exchange and the consumers to interact with their service providers thus ensuring that the customers are satisfied and developing continuing and lasting relationship (Barnes, 2007). The theory suits the study as it enabled the researcher to consider proper study approaches to customer loyalty. The author relied on the theory to select variables under study.

2. Literature Review

Service quality can lead to customer satisfaction which in turn leads to customers being loyal (Roger et al., 2011). A study by Bhattacharjee (2006) posits that service quality leads to profit and growth due to customer loyalty. Meaning service quality creates customer loyalty hence leading to profit and growth of firms. Service quality influences the customer loyalty significantly through satisfaction of the customer (Ehigie, 2006). This call upon companies to offer quality service that meet the standards of the customers so as to make them satisfied with both the product or the service and retain them since it is a prerequisite for a business to perform well.

Kumar and W.J. Reinartz claimed that the quality of service offered first lead to either customer satisfaction or dissatisfaction. Further they deposited that customer satisfaction and loyalty has an asymmetric link where the influence of the customer being dissatisfied is greater on loyalty as compared to satisfaction. A customer with a bad experience is likely to share more their experience unlike the one with a good experience. The study concludes that satisfaction of customers has a mediating effect on the quality of service offered and the loyalty of the customers.

Kamau & Oloko (2015) in their study concluded that the quality of service is a critical constituent in cultivating customer loyalty. This means that customers will buy where they will get value for their money. It is predominant for banks to comprehend the dynamics of customer loyalty in regard to service quality. In this way, the banks will be in a position to enhance their offering with enhanced quality to the consumers. Eventually it will lead to customer loyalty and growth in brand equity. Ullah & Raza (2016) looked at the relationship between service quality and customer loyalty at pearl Continental hotel services. Service quality influences the customer loyalty significantly and thus concluded that in order for the hotels to retain their clients of their products and services, the quality of service has to be excellent thus ensuring customer loyalty and gain competitive advantage over other hoteliers,

3. Research Methodology

The study adopted a descriptive and explanatory research designs were which is important in collecting data from a population one off since the results can be inferred. The study considered 156 customers drawn from three banks branches within Nairobi County i.e. Equity bank, consolidated bank and cooperative bank as the target population. The three banks were chosen on the basis that they have a majority share of government employees who transact with these banks. Stratified sampling was applied since the banks selected need good representation to commercial bank in Kenya while simple random sampling was applied to select bank customers.

Bank	Frequency	Sample Reference %	Sample Size
Equity	78	18	72
Cooperative	65	15	60
Consolidated	13	3	12
Total	156	36	144

Table 1: Sample Size
Source: Karanja&Murigi, 2021

The customers in various banks sampled from the 156 branches in Nairobi County was selected using stratified sampling and 144 out of 156 customers of them was accessed using systematic sampling who were then requested to fill in a questionnaire. The study adopted structured questionnaires as the research instruments. To pretest and validate the questionnaires, the researcher carried out a pilot study. The researcher pilot was tested for appropriateness on 10 customers of national and Kenya commercial bank. Questionnaires with the raw data from the field was checked for completeness and consistency in responses and coded. Collected data was coded and analyzed then presented in tabular form and figures. Ordinary Least Square method was used in establishing coefficients of regression through multiple regressions to show the extent of effect brand awareness has on customer loyalty. Analysis of variance (ANOVA) was used in testing the level of significance of the variables on the dependent variable at 95% level of significance. Inferential statistics was applied to establish the relationships among the study variables, and the following regression model was used:

4. Results and Discussion

From the 144 questionnaires distributed, only 105 were filled which is equivalent to a response frequency of 72.9%, which is excellent for the study based on assertions by Mugenda and Mugenda (1999).

The study sought to establish the level of agreement relating to statements on the influence of service quality on customer loyalty.

Service Quality	No extent at all	Little Extent	Moderate	Great Extent	Very Great Extent	Mean	Standard Deviation
My requests are followed up as soon as I bring them	9	16	43	22	15	2.97	0.42
The employees at the counters are always willing to help	2	6	15	36	46	3.87	0.87
Complaints to the bank are acted on swiftly	6	10	49	26	14	3.10	0.52
My bank has been consistent in providing quality services to me	1	7	12	29	56	3.99	1.03

Table 2: Statements Regarding Service Quality

The table 4.6 above shows aspects of service quality and the respondents' opinion on its influence on customer loyalty. The respondents agreed to a great extent my bank has been consistent in providing quality services to me shown by a mean of 3.99 and the employees at the counters are always willing to help shown by a mean of 3.87. The respondents were moderate that the complaints to the bank are acted on swiftly shown by a mean of 3.10 and that my requests are followed up as soon as I bring them displayed by a mean of 2.97. Ehigie (2006) suggests that service quality influences the customer loyalty significantly through satisfaction of the customer. These findings also concur with that of Kamau & Oloko (2015) who concluded that the quality of service is a critical constituent in cultivating customer loyalty. This means that customers will buy where they will get value for their money.

The study sought to establish the level of agreement relating to statements on customer loyalty.

Customer Loyalty	No Extent At All Little Extent		Moderate		Great Extent	Very Great Extent	Mean	Standard Deviation
I make repeated purchases to my bank	2	5	21		31	46	3.830	0.842
I engage in product referrals for my bank	3	9	16		54	23	3.571	0.780
I am concerned about the bank's destiny	1	3	6		27	68	4.223	1.285
My bank has the best of services	1	1	10		41	52	4.080	1.034
I am committed to banking with this bank	4	7	24		37	33	3.60	0.663
Other banks offering low interests doesn't motivate me to move from my bank	8	13	29		36	19	3.214	0.492
I let my friends and family know about the services of our bank	2	4	13		37	49	3.946	0.941
I come to the bank for transactions on a regular basis.	4	2	15		27	59	4.071	1.086
I make repeated purchases to my bank	2	5	21		31	46	3.830	0.842

Table 3: Statements Regarding Customer Loyalty

The table above shows the respondents views on customer loyalty of the bank. From the findings, the respondents agreed to a great extent I am concerned about the banks destiny presented by a mean of 4.22, my bank has the best of services shown by a mean of 4.080, the respondents agreed to a great extent that I get the services from this banking service provider on a regular basis shown by a mean of 4.071, I let my friends and family know about the services of our bank shown by a mean of 3.95, I make repeated purchases to my bank shown by a mean of 3.83, If I want to change a new banking service provider, I am committed to banking with this bank shown by a mean of 3.60 and I engage in product referrals for my bank shown by a mean of 3.57. The respondents were moderate on other banks offering low interests don't motivate me to move from my bank shown by a mean of 3.21.

4.1. Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.789 ^a	.623	.617	.04210

Table 4: Model Summary

Adjusted R has a value of 0.617 which depicts that changes in customer loyalty represented by 61.7% was attributed to variations in service quality offered to a customer by the bank, the variation of service quality provided by the bank and its customer loyalty is at 95% confidence interval. This posits that 61.7% variations on customer loyalty of banking sector could be attributed to alterations on service quality. Service quality influences the Customer loyalty by 0.789 therefore its influence is significant.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Residual	2.976	4	0.744	6.149	.004 ^b
	Regression	7.986	66	0.121		
	Total	10.962	69			

Table 5: Analysis of Variance

The level of significance derived from the analysis was 0.04 which is less than the 0.05 thus the findings of the study are sufficient to conclude on the variables under study and also be inferred to other populations. The critical value 2.37 was less compared to the calculated value 6.149 which shows that service quality significantly affects customer loyalty of banking sector in Nairobi County.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	Constant	1.954	0.453		4.313	.002
	Service Quality	0.598	0.201	.023	2.975	.001

Table 6: Coefficients

The regression equation is as shown below;

$$Y = 1.954 + 0.598 X_1$$

Retaining service quality practices continuously to zero, customer loyalty would be at 1.954. Increasing service quality aspect with one unit, will result to customer loyalty increasing, by 0.598

5. Conclusion

From the findings service quality is beneficial in showing enhancing the consistency of the banking organization and putting a good front of their willingness to help the clients. The study concludes that service quality influences customer loyalty of banking sector in Nairobi County.

6. Recommendation

The study recommends to the management of banks should be intentional in addressing consumers complaints by establishing approaches that will ensure swift response and ensure that the needs of the consumers are prioritized and better mechanism for addressing be put in place to address them.

7. Areas of Further Study

Further research should be carried out to establish the challenges facing commercial banks in ensuring service quality is enhanced.

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