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**Management Perception of Influence of Service
Quality on Customer Satisfaction among Commercial
Banks in Kenya: A Case Study of Equity Bank**

Lorna Wachira

MBA/87334/15

**Submitted in partial fulfilment of the requirements
for the Master of Business Administration at
Strathmore University**

Strathmore Business School

Strathmore University

Nairobi, Kenya

MAY 2017

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The research dissertation is my original work and has not been submitted for the assessment of a master's degree in any other university.

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Signature

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Lorna Wachira

Declaration by supervisor:

I confirm that the work in this dissertation has been submitted for examination with my approval as the university supervisor

.....

.....

Signature

Date

Dr. Monica Kerrets

Strathmore University

Abstract

Equity Bank was selected for the case study because, it continued to register significant growth in financial performance while the larger proportion of . For instance, the bank's profit before tax improved from 17.4 Billion in 2012 to 24.9 billion in 2016. Equity Bank was resilient against banking sector downward trends and maintained an impressive banking performance. By seeking views from the bank staff and customers, the study gained the clear understanding behind the improving Equity Bank service quality. The study sought to establish the management perception of influence of service quality on customer satisfaction among commercial banks in Kenya, a case study of Equity Bank. The study specific objectives were; to investigate the influence of tangibility on customer satisfaction at Equity Bank; to determine the effect of reliability on customer satisfaction at Equity Bank; and to establish the influence of responsiveness on customer satisfaction at Equity Bank. The study adopted a descriptive research design. The target population of this study were the 150 managerial employees and 1,500 Equity Bank daily customers and while the study sample size was 100 managerial employees and 82 bank customers. The study used stratified random sampling to sample respondents. The primary data was collected by using a self-administered questionnaire while secondary data was obtained from the published annual reports spanning five years (2013 - 2017). In analyzing the quantitative data, descriptive statistics and t-test were used while qualitative data was analyzed using content analysis. The study revealed that Equity Bank customers expected the bank staff to be willing to help, offer prompt attention to their requests, resolve their problem promptly, be flexible and effectively handle customer complaint. They also expected them to be timely, consistent and accurate in handling their customer transactions. Similarly, they expected the bank to have updated physical facilities, use cutting edge equipment and technology while their employee appearance was expected to be classic. The study further concludes that for each of the three SERVQUAL dimensions studied, user expectations were higher than perceptions, resulting in a negative gap score (Perception – Expectation) for each one of them. The service quality at Equity Bank delivered falls short of customer expectations and therefore improvement is required in order to meet and possibly exceed customer expectations. The customer satisfaction in Equity Bank increased progressively for the five-year period (2013-2017). The increase in customer satisfaction in Equity Bank was attributed to banks investment in service quality to their customers. There was a positive effect was found on all the three SERVQUAL dimensions that is, reliability, responsiveness and tangibility. Reliability was the service quality dimension that contributed the most to customer satisfaction followed by responsiveness and tangibility respectively. The bank should continuously monitor reliability in their service quality to ensure it is enhanced in line with customer needs. The Equity Bank management should invest in building the capacity of the staff to enhance customer banking experience. The bank management should institutionalize high standard reliability in their customer service through improved processes and standards to enhance customer satisfaction.

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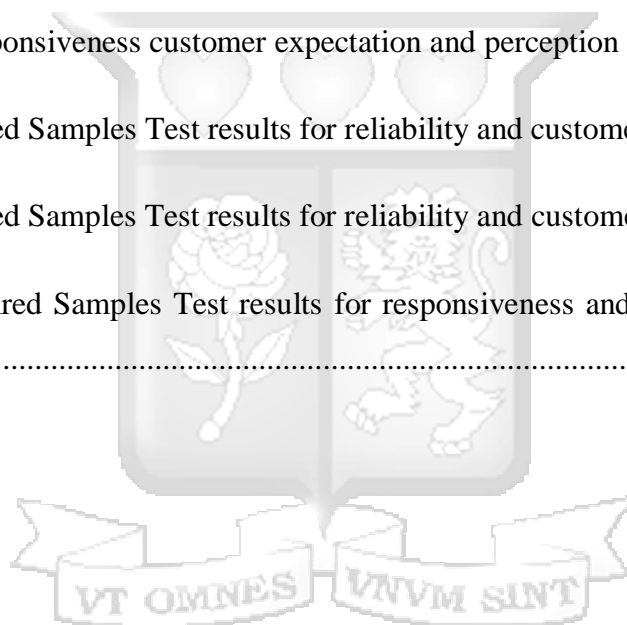
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List of Acronyms

| | |
|-----------------|--|
| ATM | Automated Teller Machines |
| BPM | Business Process Management |
| BIMB | Bank Islam Malaysia Berhad |
| CBK | Central Bank of Kenya |
| KPMG | Klynveld Peat Marwick Goerdeler |
| NACOSTI | National Council for Science, Technology and Innovation |
| SERVQUAL | Service Quality |
| RATER | Reliability, Assurance, Tangibility, Empathy, Responsiveness |



Operational Definition of Terms

Customer satisfaction refer to the post-purchase evaluation of the banking products or services a customer received taking into consideration their expectations.

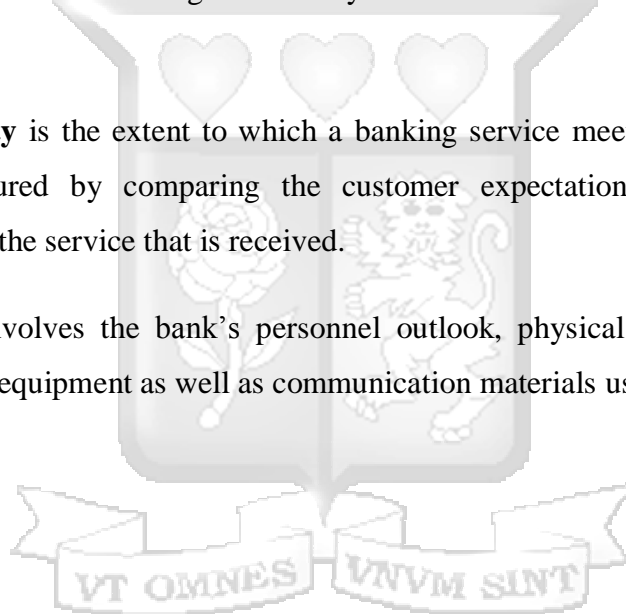
Reliability is the ability of the bank staff to perform the promised service dependably, timely and accurately.

Responsiveness refers to the willingness or readiness of bank employees to provide banking services to the customers addressing their enquiries and complains adequately.

Service is defined as an intangible offer by the bank to bank customers in exchange of money.

Service quality is the extent to which a banking service meets customer needs and can be measured by comparing the customer expectations with the customer perceptions to the service that is received.

Tangibility involves the bank's personnel outlook, physical facilities appearance, materials, and equipment as well as communication materials used.



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DEDICATION

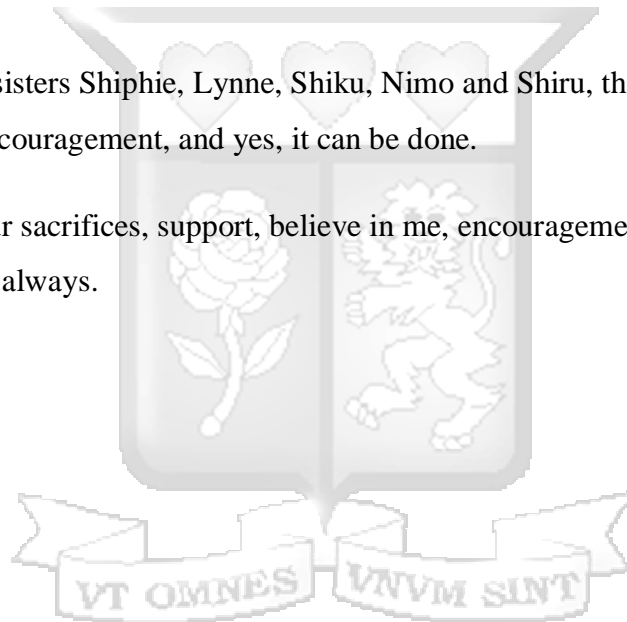
To God almighty for his blessings and favors.

To my dear parents, Ruth Nyokabi and Perminus Wachira – your faith, encouragement and believe in me has seen me through many hurdles. For teaching me hard work, perseverance and integrity.

To my sister June, encouraging and praying for me every step of the way. To my lovely daughter Milla, this is for you, the nights I missed our time together studying, I love you.

To my lovely sisters Shiphie, Lynne, Shiku, Nimo and Shiru, thank you for the prayers and encouragement, and yes, it can be done.

To Flavor, your sacrifices, support, believe in me, encouragement and many prayers, God bless you always.



CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Banks world over continue to face challenges in terms of intense competition, drastic changes in banking technology and innovation, evolving customer preferences, increased regulation and the aftermath of 2008/2009 global financial crisis (Hussein & Aziz, 2013). To deal with these challenges, commercial banks leverage on service quality to improve customer experience and satisfaction with their products and services (Van & Lee, 2012). Further, Mengi, (2009) notes that banks survival and sustained performance is anchored on providing quality services to their clientele.

In Kenya, the banking sector plays a dominant role in the financial intermediation, particularly with respect to mobilization of savings and provision of credit as well as in the economic development (Were & Wambua, 2013). Though performing their functions, Kenyan commercial banks are faced by tremendous changes in innovation and financial service environment as well as liberalization that have increased competition and interminable variety of product. Therefore, to reduce the negative effect of market challenges banks are forced to move from a producer-oriented definition of competitiveness to one that recognizes the banks' ability to manage the linkage between activities and customers. To achieve this, Kenyan banks have to provide quality services to customers by monitoring and evaluating processes at each stage to ensure that customers get value for any banking services provided (CBK, 2016). Quality services leads to customer satisfaction. This is very crucial as customers remain loyal to company's if the products meet their perceived taste and preferences (Mamo, 2017).

Service quality has therefore become an increasingly important factor for success and survival of commercial banks. Provision of high quality service aids in meeting several requirements such as customer satisfaction and its subsequent loyalty and market share, soliciting new market share, improved productivity, financial performance and profitability service (World Bank, 2016).

1.1.1 Service Quality

Service is defined as an intangible offer by one party to another in exchange of money or pleasure (Kotler & Keller, 2009). According to Kotler & Keller (2009) service quality is the extent to which a service meets customer needs and can be measured by comparing the customer expectations with the customer perceptions to the service that is received. Kanishka (2006) defines service quality as a measure of the extent to which the service delivered meets the customers' expectations. In addition, the nature of most service is the presence of customer in the delivery process and the perception of quality is influenced by not only the service outcome but also the delivery process. According to Lewis and Booms (2013) service quality is a measure of how well the service level delivered matches customer expectations. Delivering quality service thus means conforming to customer expectations on a consistent basis.

According to Markovic and Jankovic (2013), service quality is measured using SERVQUAL instrument which consists of 22 items which measure five service quality dimensions, namely, tangibles (physical facilities, equipment, and appearance of employees), reliability (ability to perform the promised service dependably and accurately), responsiveness (willingness to help customers and provide prompt service), assurance (knowledge and courtesy of employees and their ability to inspire trust and confidence), and empathy (caring and individualized attention the firm provides its customers). Nitecki & Hernon (2010) also defined service quality as meeting or exceeding customer expectations, or the difference between customer perceptions and expectations of service.

Service quality is very important to any organization because it is a route to competitive advantage and profitability. Quality superiority has been found to provide substantial performance related benefits such as customer loyalty, responsiveness to demand, market share growth and productivity. Service reliability is the ability to perform the promised service dependably and accurately (Smith, Smith & Clarke, 2007). This dimension of service quality examines the ability of the service provider to perform services right the first time and keep service promises. It also means consistently performing the service dependably and accurately.

Parasuraman *et al.* (2012) developed an instrument to measure service quality from customer perspective that was called SERVQUAL. This instrument is divided into two parts, namely customer expectations and perceptions where each part consists of 22 items and five dimensions, namely tangible, reliability, responsiveness, assurance, and empathy (Parasuraman *et al.*, 2012). Therefore, the five determinants of service quality are; reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding the customer and tangibles. There is a high degree of correlation between some of the service quality elements and customer satisfaction.

Buttle (2016) posits that responsiveness is the willingness to help customers and provide prompt service while responsiveness is the readiness of staff members to help in a pleasant and effective way. One of the major determinants of service quality is timely and adequate response. Employees should be willing and able to deliver timely and substantive response to inquiries and complaints. Smith *et al.* (2017) and Kay and Pawitra (2011) both agree that assurance is knowledge and courtesy of employees and their ability to convey trust and confidence. The service provider must instill confidence in customers in the process of transacting, make customer feel safe and display courtesy consistently. Robledo (2011) suggests that empathy is the approachability, ease of access and effort taken to understand customers' needs. Empathy is the individual attention given to customers including showing care and empathy in handling claims and accidents. Tangibility is the physical evidence of the service, meaning physical facilities, appearance of personnel, tools or equipment used to provide the service. It also includes the appearance of the physical artifacts and staff members connected with the service (accommodation, equipment, staff uniforms, and so on) (Sureshchandar, Rajendran & Anantharaman, 2012).

Tangibles which is defined as the physical appearance of facilities, equipment, staff, and written materials. Tangibles are used by firms to convey image and signal quality. Refers to the physical facilities and equipment that was provided to the customers, such as reading area, relaxation area, book shelf, toilet and other facilities. Besides that, the personnel was to be included in this item.

Reliability is defined as the ability to perform the promised serviced dependably and accurately” or delivering on its promises (Zeithaml and Bitner, 2006). Deal with customer need a provider to keep their promises to provide the best services as their

promise. Reliability depends on handling customer service issues, performs the services right the first time; offers services on time, and maintain a record of error-free. Moreover, they define reliability as the most significant factor in conventional service (Parasuraman *et al.*, 2012).

According to Zeithaml *et al.*, (2016) responsiveness is the willingness to help customers and provide prompt service. This dimension is concerned with dealing with the customer's request, questions and complaints promptly and attentively. Companies must look at responsiveness from the point of the customer rather than the company's perspective. Responsiveness is defined as the willingness to help customers and provide prompt service (Parasuraman *et al.*, 2012).

1.1.2 Customer Satisfaction

Satisfaction is a person's feeling of pleasure or disappointment resulting from comparing a product's performance (outcome) in relation to his or her expectation (Kotler & Keller, 2006). It is a psychological concept that involves the feeling of well-being and pleasure that results from obtaining what one hopes for and expects from an appealing product and/or service (World Trade Organization, 2015). Kotler and Armstrong (2012) preach that satisfaction is the post-purchase evaluation of products or services taking into consideration the expectations. Researchers are divided over the antecedents of service quality and satisfaction. The studies of Sulieman (2011) suggests service quality leads to customer satisfaction. To achieve a high level of customer satisfaction, most researchers suggest that a high level of service quality should be delivered by the service provider as service quality is normally considered an antecedent of customer satisfaction.

Customer satisfaction is a term that has received considerable attention and interest among scholars and practitioners perhaps because of its importance as a key element of business strategy, and goal for all business activities especially in today's competitive market (Lovelock & Wirtz, 2007). It is a consumer's post-purchase evaluation and affective response to the overall product or service experience (Oliver, 1980).

Customer satisfaction is an experience-based assessment made by the customer of how far his own expectations about the individual characteristics or the overall

functionality of the services obtained from the provider have been fulfilled (Bruhn, 2003). Indicators of customer satisfaction are customer loyalty, degree of appreciation and strengthened relationship. Customer satisfaction is important because it provides marketers and business owners with a metric that they can use to manage and improve their businesses. It is the best indicator of how likely a customer will make a purchase in the future. In a competitive marketplace where businesses compete for customers; customer satisfaction is seen as a key differentiator. Businesses which succeed in these cut-throat environments are the ones that make customer satisfaction a key element of their business strategy. By measuring and tracking customer satisfaction organization can put new processes in place to increase the overall quality of customer service (Dadfar & Brege, 2012).

Customer satisfaction is important to get long-term business success (Zeithami *et al.*, 2016). To protect market share and profit, organizations need to overcome competitors through offering high quality products or services to ensure customer satisfaction (Tsoukatos & Rand, 2006). Furthermore, Oliver (2010) indicates that customer satisfaction requires full meeting customer expectations of products and services. Customer satisfaction and dissatisfaction as the customer's judgments concerning a business' success or failure in meeting expectations (Chidambaram, & Ramachandran, 2012, Kheng *et al.*, 2010). In addition; satisfaction strengthens quality perception and leads repeat purchases. More specifically, in the banking industry, a main element of customer satisfaction is the nature of the relationship among customers and suppliers of products and services. Therefore, both product and service quality usually are observed as an important condition and valuable factor for retaining customer satisfaction (Muslim & Isa, 2015). It is true that the delivery of high quality services to the company customers offers an opportunity to differentiate them in the competitive market (Karatepe *et al.*, 2015). Additionally, Zaim, Bayyurt, and Zaim (2010) found that tangibility, reliability and empathy are significant for customer satisfaction, but Mengi (2009) indicated that responsiveness and assurance are more significant.

1.1.3 Service Quality and Customer Satisfaction

Spreng and Singh (2013) found out that increase in service quality lead in increase in customer satisfaction. Service quality is a determinant of customer satisfaction,

because service quality comes from outcome of the services from service providers in organizations (Parasuraman et al., 2012). Customer's satisfaction is therefore key to all business because a satisfied customer becomes loyal to the organizations and also tells others about the organization. Therefore, organization that provides service quality will make more sales which in turn lead to profitability. Offering service quality will also improve the image of the organization and it will also be a source of motivation for the employees.

Isa (2008) examined the relationship between service quality perception and customer satisfaction in Islamic banks using the six dimensions of service quality. It was found that compliance dimension was very crucial to Islamic banking. Stellah (2013) focused on all the dimensions of ServQual model to determine the service quality. Siddiqi (2010) examined the applicability of service quality of retail banking industry in Bangladesh and found that the quality service is positively correlated with customer satisfaction where empathy had the highest positive correlation with customer satisfaction followed by assurance and tangibility. On the other hand, Lo, Osman, Ramayah and Rahim (2010) found that empathy and assurance had the highest influence on customer satisfaction in the Malaysian retail banking industry.

Duodu and Amankwa (2011), studied on an analysis and assessment of customer satisfaction with service quality in insurance industry in Ghana and found that reliability and responsiveness are functional quality dimensions that were found to have significant impact on customer satisfaction. Technical quality, price, and image quality were observed to be factors that do not significantly affect customer satisfaction in Ghana insurance industries. Reliability of service provider was found to be a key driver of customer satisfaction in insurance industries in Ghana. Therefore, it is recommended that the management of insurance companies should be timely and consistent in-service delivery and solving customer complaints, provide service right the first time and keep error free records regarding customer information.

Agbor (2011) looked at the relationship between customer satisfaction and service quality in three service sectors in Umea. The finding was that service quality is not the only factors that could lead to customer satisfaction in service sectors; that service quality dimension varies in the different service sectors. It was suggested that organizations of service sector need to improve on dimensions of service quality in

order to provide quality service to satisfy customers. Also, to provide total satisfaction to customers, the service sectors need to improve on the other factors that were given as reasons for satisfaction.

Hussein and Aziz (2013) investigated e-banking service quality in one of the Egypt's banks. They used stakeholder analysis and found that service quality is an important antecedent of customer satisfaction. According to them, nine dimensions of service quality have significant influence on customer satisfaction. These dimensions include usability, reliability, responsiveness, privacy, incentives, fulfillment, efficiency, assurance, and empathy. Moreover, the findings show that service quality is an important antecedent of customer satisfaction. This finding reinforces the need for banks managers to place an emphasis on the nine dimensions of service quality.

Maddern, Maull and Smart (2007) examined customer satisfaction and service quality in UK financial services. They evaluated the drivers of customer satisfaction by specifically exploring the impact of business process management (BPM) on service quality and customer satisfaction. The finding was that staff satisfaction and service quality were key drivers of customer satisfaction. Technical service quality is found to play a critical role in determining customer satisfaction and a strong relationship is found between technical service quality and business process management. They recommend that managers should focus on technical service quality as a priority.

Hellen (2014) examined service quality and customer satisfaction in certified public accountant training institutions in Nairobi Kenya and found that there was a positive relationship between service quality and customer satisfaction. The five service quality dimensions except empathy was found to influence customer satisfaction. Similarly, customer expectations were relatively higher than the perception hence resulting into dissatisfaction. Therefore, it was recommended that certified public accountants training institutions should focus on improving all the five dimensions so as to achieve high customer satisfaction in order to obtain competitive advantage.

Spreng and Mackoy (2006) argue that service quality and customer satisfaction are inarguably the two-core concept that are at the crux of marketing theory and practice. Therefore, banks should first identify what the consumer perceives as service quality in order to successfully leverage service quality as a competitive edge. Service quality

enable firms to make more sales which in turn increase their profitability and hence improving the firm's image. Firms that provides quality service attracts more customers and improves their public image. Service quality leads to customer satisfaction because a satisfied customer becomes loyal to the firm. Organizations should provide quality service to customers so as to attract and maintain them (Kotler & Keller, 2006).

African Development Bank (2014) argue that despite the stagnation of the 43 commercial banks in Kenya since 2008, there is improved quality of financial services and expanded access. However, a KPMG (2013) maintains that there is still much further to go to meet the expectations of customers. It further contends that the customers are more interested in-service quality in making their banking decisions. It is yet to be established the extent to which service quality contributes to customer satisfaction of among commercial banks in Kenya. Isa (2008) examined the relationship between service quality perception and customer satisfaction in Islamic banks using the six dimensions of service quality. It was found that compliance dimension was very crucial to Islamic banking. Stellah (2013) focused on all the dimensions of SERVQUAL model to determine the service quality. Siddiqi (2010) examined the applicability of service quality of retail banking industry in Bangladesh and found that the quality service is positively correlated with customer satisfaction where empathy had the highest positive correlation with customer satisfaction followed by assurance and tangibility. On the other hand, Lo, Osman, Ramayah and Rahim (2010) found that empathy and assurance had the highest influence on customer satisfaction in the Malaysian retail banking industry. Samraz Hafeez and Bakhitiar Muhammad (2012) posit that Pakistan customers are slightly satisfied with the services of banks. Mohsin Zafar et.al, (20112) predicted that there is a positive link between customer satisfaction and tangibility, reliability, competence and conflict handling while Van Dinh and Lee Pickler (2012) found Vietnam retail bank customers overall satisfaction statistically correlate with perceived service quality, Reliability and Empathy were the most important customer satisfaction than other dimensions.

1.1.4 Banking Industry in Kenya

The Kenyan banking sector comprise of; 43 commercial banks, 1 mortgage finance company, 9 microfinance banks, 7 representative offices of foreign banks, 94 foreign exchange bureaus, 7 money remittance providers and 2 credit reference bureaus (CBK, 2017). It is highly stable and regulated and it would be expected to have a fairly distributed market share. However, six commercial banks in Kenya, control over 65% of the market share implying that they continue enjoying high level of customer satisfaction. The sector is also facing challenges of satisfying customers' needs due to changing tastes and preferences (CBK, 2016).

For the period of five years between 2012 and 2016, the Kenya banking industry has been struggling to weather the negative effects of the global financial crisis of 2008/2009. This has been further complicated by other market forces particularly the rapidly changing banking technology and the introduction of interest capping which significantly reduced bank revenues. The other market forces that impact negatively on Kenyan banks include; the ever-evolving consumer behavior, increased regulation, stiff competition from other financial institutions like SACCOs, DTMs and telecommunication companies offering financial services (Mbiti, 2011).

1.1.5 Equity Bank

Against the highlighted difficult banking environment, Equity Bank has continued to register significant growth. For instance, the bank's profit before tax improved from 17.4 Billion in 2012 to 24.9 billion in 2016. In 2016 Equity Group was recognized globally and was ranked by The Banker Top Banks in the world 2016 as the fastest growing big bank in Africa, 8th best bank in the world on Return on Assets for the second year running and 43rd best bank in the world in Soundness as measured by capital asset ratio while being ranked the 34th best bank in terms of Return on Capital. Similarly, Euromoney Awards of Excellence named Equity as Africa's Best Bank 2016, Kenya's Best Bank and Kenya's Best SME Bank. In addition, in the local scene, Equity Bank was ranked by Think Business 2016 Banking Awards as the Best Bank overall, Best Tier 1 Bank, Best Bank in SME Banking, Best Bank in Retail Banking, Best in Agency Banking, Best Microfinance Bank, and runners up best bank

in asset finance, internet banking, mortgage finance, product marketing and customer satisfaction (Think Business, 2016).

The Kenya banking sector for the period between 2014-2017 has been characterized by banks issuing profit warnings; closure of branches, down-sizing and restructuring, with three banks being placed under receivership (CBK, 2017). However, equity bank defied such trends and maintained an impressive banking performance. This therefore forms the rationale behind this study that seeks to determine the role of service quality on customer satisfaction at Equity Bank. It is worth noting that Equity Bank borrow from the SERVQUAL instrument in evaluating their service quality offered (Equity Bank, 2017).

1.2 Problem Statement

In view of growing competition in the banking industry, providing high level of customer satisfaction is critical to sustaining businesses (Midoro *et al.*, 2015). One way to differentiate a firm's services from its competitors is by offering high-quality services (Dadfar & Brege, 2012; Miles, 2013). The literature shows that customer satisfaction is important to get long-term business success (Zeithami *et al.*, 2016). To protect market share and profit, banks need to overcome competitors through offering high quality products or services to ensure customer satisfaction (Tsoukatos & Rand, 2006). Furthermore, Oliver (2010) indicates that customer satisfaction requires full meeting customer expectations of products and services.

According to Financial Access Survey (2017/0, the poor quality of services offered by commercial banks in Kenya over a long period is to blame for decline in customers numbers and performance of the same banks which has stagnated over the last five years. With better and more customer centric quality of services offered by other financial providers like SACCOs, the commercial banks have had to relook into their quality of service after loosing their customers to their competitors (Ndungu, 2017). Equity Bank in Kenya forms a good case study given its resilient and sustained growth at the backdrop of a banking industry with declining growth. Equity Bank resilience was attributed to its improved service quality and subsequent customer satisfaction. For instance, while Equity Bank profit before tax improved from 17.4 Billion in 2012 to 24.9 billion in 2016, most of the other had declining financial

performance that led to issuance of profit warnings; closure of branches, down-sizing and restructuring, with three banks going under receivership (CBK, 2017). Equity Bank sustained resilience and impressive banking performance compared to the downward trends of the rest of the commercial banks was the rationale behind this study on the influence of service quality on customer satisfaction at Equity Bank. Empirical studies both globally and locally on service quality and customer satisfaction are mostly surveys and focus on the five SERVQUAL dimensions of service quality. Whereas most of the empirical studies focus on the customer, this study sought information from Equity Bank management staff and its customer to gain an in-depth understanding given that the staff designed and implemented service quality dimensions while the customers were the end users of the banking services offered. Therefore, this study sought to investigate the management perception of influence of service quality on customer satisfaction among commercial banks in Kenya, a case study of Equity Bank.

1.3 Objectives

The study general and specific objectives are as presented in the subsequent sections.

1.3.1 Main Objective

To establish the management perception of influence of service quality on customer satisfaction among commercial banks in Kenya, a case study of Equity Bank.

1.3.2 Specific Objectives

- i. To investigate the management perception of the influence of tangibility on customer satisfaction at Equity Bank.
- ii. To determine the management perception of the effect of reliability on customer satisfaction at Equity Bank.
- iii. To establish the management perception of the influence of responsiveness on customer satisfaction at Equity Bank.

1.3.3 Research Questions

- i. What is the management perception of the influence of tangibility on customer satisfaction at Equity Bank?
- ii. What is the management perception of the effect of reliability on customer satisfaction at Equity Bank?
- iii. What is the management perception of the influence of responsiveness on customer satisfaction at Equity Bank?

1.4 Scope of the Study

The study focused on the influence of service quality on customer satisfaction. The service quality dimensions being investigated include; tangibility, reliability and responsiveness. The data was collected at Equity Bank which formed the geographical scope of the study. The management staff of at Equity Bank acted as the study respondents.

1.5 Significance of the study

The study may be highly useful to the management of commercial banks as it offers insights on the best way to redefine their service quality to satisfy customers. This study will help managers in banking sector to pinpoint the strength and weaknesses of their internal processes towards improving their service quality to meet the evolving customer needs for enhancement in customer satisfaction.

To the policy makers like the central banks, the finding and results of this study may provide invaluable insights on monitoring the impact of the bank operations on customer satisfaction. It therefore provides invaluable information that allows them to reform the banking regulatory frameworks to be more customer oriented for improvement in service delivery in the banking sector in Kenya.

The study may benefit the bank customers as they would gain more insights on the value of quality of services in improving their banking experience and quality of life. Additionally, the bank staff may gain useful insights on better ways to serve their customers, thereby improving their customer satisfaction.

To the scholars and academicians in customer relationship may benefit from the study results. The study findings may add to the body of knowledge and therefore act as reference points in future research.



CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter provides the empirical literature on three service quality dimensions of tangibility, reliability and responsiveness and their respective influence on customer satisfaction. The chapter further presents the conceptual framework and research gap.

2.2 Theoretical review

The study will be anchored and explained through the Resource Based View by Barney (1991). The details of the said theory are detailed in the subsequent subsection.

2.2.1 Resource Based View

Resource based view (RBV) argues that the firm's internal environment is a driver for competitive advantage and emphasizes the resources that firms have developed to compete in the environment. The theory suggests that resources that are valuable, rare, difficult to imitate, and non-substitutable best position a firm for long-term success. Firms resources are assets, capabilities, processes, knowledge, information among others, that is managed and controlled by the firm so as to enable them to implement superior strategies that improves efficiency and effectiveness (Barney and Arikan, (2001), they also studied 166 empirical articles that test the RBV in one form or another. Their finding tend to validate the RBV as a 'true' as 98% of the studies were consistent with the RBV logic.

Ferreira, Azevedo and Ortiz, (2010), argued that the Resource-Based View (RBV) of the firm has become one of the most widely used theoretical frameworks in the management literature. They posit that the foci of RBV are competitive advantages generated by the firm, from its unique set of resources. They note that the theory aspires to explain the internal sources of a firm's sustained competitive advantage (SCA) and its central proposition is that if a firm is to achieve a state of SCA it must acquire and control valuable, rare, inimitable, and non-substitutable (VRIN) resources and capabilities, plus have the organization in place that can

absorb and apply them. Ferreira et al., (2010), support the idea that the resources in question can be both tangible and intangible in nature.

Tangible resources in this way include capital, access to capital and location (among others) while intangible resources consist of knowledge, skills and reputation, entrepreneurial orientation, among others. Hence they note that this theory defends that, under imperfection of markets exists a diversity of firms and a variation in the specialization degrees that provokes a limited transfer of resources which present type, magnitude and different nature. Therefore, the main reason for firms to grow and have success can be found inside of the firms, that is, firms with resources and superior capabilities will build up a basis for gaining and sustaining competitive advantage. Despite the fact that RBV is premised that close competitors differ in their resources and capabilities which creates a differences and in turn affect competitive advantage

Capabilities are needed to bundle to manage and otherwise to exploit resources in a manner that provides value added to customers and creates advantages over competitors (Ananth *et al.*, 2011).

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 (Annamalah et al, 2011). Awan et al. (2011) further argued that to have the potential to generate competitive advantage, firm's resource must be valuable in the sense that it exploits the strengths of the organization so as to adapt to opportunities in the environment and deal with threats. Hence the provision of quality service is a resource that adds value to the service offered by organization in order to obtain customer satisfaction and loyalty. The resource must also be rare among a firm's current and potential competition because it gives the organization an added advantage of offering quality service relative to competitors hence creating customer satisfaction. A resource should also be non-substitutable so as to give organization monopoly power hence offering quality service and enhancing customer satisfaction and loyalty.

Caruana (2012) also adds that resources must be difficult to imitate so that the firms maintains its ability to constantly innovate its products in order to increase the value perceived by the customer which will lead to customer satisfaction and service quality. Also, there should not be strategically equivalent substitutes for this resource so as to enable the firm to be the most competent in providing quality service. The contribution of this theory to this research is that firms should develop a service that is unique so as to earn more revenue and hence profit.

The theory is relevant to the study in that competitive advantage of Equity Bank is a function of various resources it poses like; physical facilities, equipment, technology, and human resources. The bank's leveraging on such resources has made it highly responsive to customer needs hence high customer satisfaction it has registered over the years.

2.3 Measurement of Service Quality

The inherent characteristics of services relating to heterogeneity, intangibility, perishability and inseparability equate to greater inconsistency in managing customers' experience (Ladhari, 2009). Unlike physical product whereby its quality can be specified and evaluated in advance, service quality was argued to be more elusive, difficult to replicate and dependent on human attitudes and perceptions. SQ was described as a composite of service attributes or dimensions that are desirable to customers (Zeithaml *et al.*, 2010). However, there is no clear indication of these dimensions, as their interpretation differs across business contexts and individuals. Furthermore, some of the dimensions, which relate to sophisticated experiences and profound affections, are transcendent and cannot be directly observed or measured (Dahlgard *et al.*, 2008). Subsequently, this has resulted in the development of the GAP model where SQ is measured by the difference between expectation and perception scores (Parasuraman *et al.*, 1988). These scores are rated with reference to five SQ dimensions. They are tangibles, reliability, responsiveness, assurance and empathy, (RATER)

Collectively, they represent the SERVQUAL instrument, which was claimed to be generic and can be applied invariantly across different contexts. Parasuraman *et al.* (2012) studied different types of service industries including banking, motor repair

shops, credit card companies and telecommunication companies, and concluded that service quality had dimensions as tangibles, reliability, responsiveness, empathy and assurance. These dimensions were incorporated in a tool known as the SERVQUAL model. Service quality (SQ) is an abstract construct, and numerous models were proposed in the literature to operationalize service quality. The most prominent model is SERVQUAL, which consists of five SQ dimensions. They are tangibles, empathy, assurance, reliability and responsiveness (Parasuraman *et al.*, 1985). The model was claimed to be generic and can be applied invariantly across all contexts. However, there have been growing contentions that the interpretation of SQ differs across industries, customer groups and cultures (Ladhari, 2009).

The model was introduced by Zeithaml, Berry, and Parasuraman (1988) as a tool for measuring customer expectations and perceptions of service quality. SERVQUAL is a standardized instrument that has been applied across a broad spectrum of service industries. To measure customer satisfaction with various aspects of service quality, Parasuraman, Zeithaml and Berry, developed the first prototype of the SERVQUAL model in the mid-1980s, which they later refined in the early 1990s. This model is based on the premise that customers can evaluate a firm's service quality by comparing their perception of its service with their own expectations. SERVQUAL model consists of 5 dimensions of tangibles, reliability, responsiveness, empathy and assurance. From the 5 dimensions, 22 statements are derived, each measuring both the expectations and perceptions towards the quality of services provided.

The respondents are required to rate, on a 5-point Likert scale, the degree to which they feel the service provider should deliver for an excellent service. Another identical scale is provided adjacent to the first one in which the respondents rate the actual quality of service delivered to them by an organization based on their perceptions. For each statement, the difference between perception and expectation is calculated; the averages of the obtained score being the SERVQUAL score (Parasuraman *et al.*, 1988). The SERVQUAL instrument is a two-part questionnaire. The first part consists of twenty-two items measuring expectations of customers and the second part consists of twenty-two similarly worded items measuring perceptions or experience of customers. Assessing the quality of service involves computing the difference between the ratings customers assign to the paired expectation/ perception

statements. SERVQUAL is designed as a diagnostic instrument to identify areas of strength and weakness in the delivery of services.

The 5 dimensions of the SERVQUAL model include; tangibles which entails physical facilities, equipment, and appearance of personnel. Reliability refers to the ability to perform the promised service dependably and accurately. On the other responsiveness refers to willingness to help customers and provide prompt service while empathy refer to the caring, individualized attention the firm provides its customers. Assurance refers to knowledge and courtesy of employees and their ability to inspire trust and confidence.

Service quality arises from a comparison of the difference between service expectations developed before an encounter with banks and the performance perceptions gained from the service delivery based on the service quality dimensions (Bloemer, 2013).

2.3 Measurement of Customer Satisfaction

To protect or gain market shares, organizations need to outperform competitors by offering high quality product or service to ensure satisfaction of customers. In proportion to Magesh (2010), satisfaction means a feeling of pleasure because one has something or has achieved something. It is an action of fulfilling a need, desire, demand or expectation. Customers compare their expectations about a specific product or services and its actual benefits. As stated by Kotler & Armstrong, (2010), satisfaction as a person's feelings of pleasure or disappointment resulting from the comparison of product's perceived performance in reference to expectations. Customer's feelings and beliefs also affect their satisfaction level.

Zeithaml and Bitner (2013) define customer satisfaction as the evaluation of a product or service in terms of whether the product or service meets the customer needs and expectations. Failure to meet these needs automatically leads to dissatisfaction. Sureshchandar et al. (2012) suggested that customer satisfaction should be viewed as a multi-dimensional construct and that the measurement items should be generated with the same dimensions of service quality. Otemba (2012) studied customer satisfaction in the Kenyan telecommunications industry and established that only 20% of the respondents were very satisfied while 52% were just satisfied. 13% of the

respondents were neither satisfied nor dissatisfied, whereas only 7% were dissatisfied. 8% were however very dissatisfied.

Increasing customer satisfaction has been found to lead to higher future profitability (Anderson, Fornell, & Lehmann 2013), lower costs related to defective goods and services (Anderson, Fornell, and Rust 2017), increased buyer willingness to pay price premiums, provide referrals, and use more of the product (Anderson and Mittal 2010), and higher levels of customer retention and loyalty (Malthouse et al., 2013).

Increasing loyalty, in turn, has been found to lead to increases in future revenue (Fornell 2016) and reductions in the cost of future transactions (Srivastava, Shervani, and Fahey 2011). A firm's future profitability depends on satisfying customers in the present – retained customers should be viewed as revenue producing assets for the firm (Anderson and Sullivan 2013). Empirical studies have found evidence that improved customer satisfaction need not entail higher costs, in fact, improved customer satisfaction may lower costs due to a reduction in defective goods, product re-work, etc. (Fornell 2012). Customer satisfaction and retention that are bought through price promotions, rebates, switching barriers, and other such means are unlikely to have the same long-run impact on profitability as when such attitudes and behaviors are won through superior products and services (Anderson & Mittal, 2010).

Rust and Oliver (2014) defined satisfaction as the customer's fulfillment response which is an evaluation as well as an emotion-based response to a service. Customer satisfaction is "a collective outcome of perception, evaluation, and psychological reaction to the consumption expectation with a product or services (Yi, 2010). Kotler (2010) defined satisfaction as a person's feelings of pleasure or disappointment resulting from comparing product's perceived performance or outcome in relation to his or her expectations.

According to Hansemark and Albinson (2014) satisfaction is an overall customer attitude towards a service provider, or an emotional reaction to the difference between what customers anticipate and what they receive, regarding the fulfillment of some needs, goals or desire. Satisfaction is merely the result of things not going wrong; satisfying the needs and desires of consumers (Besterfield, 2014). Satisfaction refers to "the buyer's state of being adequately rewarded in a buying situation for the

sacrifice he or she has made” (Al-alak, 2010). Furthermore, Lin (2013) defined customer satisfaction as the outcome of a cognitive and affective evaluation of the comparison between expected and actually perceived performance, which is based on how customers appraise delivery of goods or services.

2.4 Empirical Literature Review

Customer satisfaction is a cognitive and affective reaction to a service incident (Oliver, 2010). It is regarded as a fulfilment response, from comparing a customer’s experience with his or her expectation of a service encounter. Although customer satisfaction and SQ connote very similar meaning, it was argued that they are distinct constructs (Taylor and Baker, 2014). Iacobucci *et al.* (2015) concluded that the key difference between SQ and customer satisfaction is that quality relates to the core of the management service delivery, whereas satisfaction reflects customers’ experiences with that service. They argued that quality improvements that are not based on customer needs will not lead to customer satisfaction. As a result, SQ can be viewed as one of the antecedents of customer satisfaction.

Previous research has established that the relationship between SQ and customer satisfaction is generally positive (Liang and Zhang, 2012). In the marketing literature, customer satisfaction can result in positive customers’ behavioral intentions (Qin and Prybutok, 2013). It was found that satisfied customers are more likely to exhibit loyalty to a service provider by repurchasing, or recommending the service to others (Seni’c and Marinkovi’c, 2014). Subsequently, this has a positive impact on a firm’s market and financial performance (Lam *et al.*, 2011).

Henard and Szymanski (2011) established that service quality is the main driver of customer satisfaction in the service industry. The results revealed that service quality is an antecedent of customer satisfaction. Wanjau, Muiruri & Ayodo (2012) studied service quality and customer satisfaction in the Public health sector in Kenya and established that; ineffective communication channels, low technology adoption, low employee capacity and insufficient funds were the most significant service quality factors affecting customer satisfaction in public health sector in Kenya.

Mburu (2013) carried out a study to investigate the determinants of customer satisfaction and its connection with service quality in the banking industry. She found

out that customer satisfaction is determined by factors such as pricing, quality of service, value and relationship with the service provider's staff. Andaleeb & Simmonds (2001) concluded that service quality was influenced by tangibles, resources, reliability, responsiveness, competence and assurance while Adeniran (2011) concluded that tangibles, reliability, responsiveness, assurance and empathy, significantly and positively contributed towards customer satisfaction.

2.4.1 Tangibility and Customer Satisfaction

Jabnoun and Al-Tamimi, (2013) indicated that customers choose tangibility factor of service quality in the banking industry 'bank could build customer relationships by delivering added tangible and intangibility elements of the core products' (Zineldin, 2015).

The tangibles involve the firm' representatives, physical facilities, materials, and equipment as well as communication materials. Furthermore, Physical environmental conditions appeared as a clear evidence of the care and attention paid for the details offered by the service provider (Fitzsimmons & Fitzsimmons, 2011). Davis et al. (2013) summarize tangibles like the physical confirmation of the service. More specifically, Parasuraman et al. (2012) define the tangibility appearance of physical facilities, equipment, personnel, and written materials. It is also further defined as the ease in providing service to the customers, visibility of necessary service to the customers, well groomed employees and ease in accessing written materials like pamphlets, brochures, folders, information books etc having favorable consequences on the level of customer satisfaction. Modern looking and sophisticated equipment and visually appealing or attractive ambience are viewed as the positive impacts of tangibility on customer satisfaction in the banking sector (Ananth et al., 2011).

Munusamy, Chelliah and Hor (2010) further discuss that there is a significant relationship and positive correlation between tangibility and customer satisfaction. This is also consistent with researchers (Zafar et al., 2012; Molafe, Ansari & Teimouri, 2013; Lau et al., 2013), banks facilities for example the ATM machines, cash and cheque deposit machines are very convenient for banks customers for making payments, transfers and depositing money in to accounts. Saghier and Natahn (2013) posit that there is a positive relationship between tangibility and customer satisfaction but no significant effect. Tangibility is not a requirement in providing the

infrastructural facilities so it is not important in affecting customer satisfaction. There is no relationship between the need of tangibility and customer satisfaction in retail banking sector in Malaysia (Annamalah et al., 2011)

This observation is consistent with previous researchers (Zafar et al., 2012; Molafe, Ansari & Teimouri, 2013; Lau et al., 2013), facilities were not considered important and no longer a major criterion in delivering customer satisfaction.

Finally, in the present research, tangibles are the facilities and the banking services offered by the providers of the Arab bank headquarters as perceived by the specific Arab banking customers. Such tangibles are measured using 4 items of the tangibility dimension of the 22-item *SERVQUAL*.

2.4.2 Reliability and Customer Satisfaction

Yang et al., (2014) noted that reliability consists of the right order fulfillment; accurate records; accurate quote; right in the bill; Results are more accurate than commissions; keep the promise of service. He also mentions that reliability is the most significant factor in banking services.

More specifically, in a study by Parasuraman et al. (2012), *SERVQUAL* was applied to gather data in four different companies, including banks, credit card companies, the company's maintenance services, and long distance phone company. He found high reliability in all four of these companies, with the possible exception of some of the values associated with significant dimensions (Parasuraman et al., 2012). Finally, reliability is defined as the ability to perform the promised service dependably and accurately (Parasuraman et al., 2012). In this research, reliability is the ability of banking service providers at a specific Arab bank to execute the promised service as perceived by the specific Arab bank headquarters' banking customers. This is measured using 5 items of the reliability dimension of the 22-item *SERVQUAL*.

Reliability is a significant factor of product quality in addition to good personal service, staff attitude, knowledge and skills (Walker, 1990). It is found that service reliability is the service "core" to most customers and managers should use every opportunity to build a "do-it-right-first" attitude (Berry et al., 2010).

While finding the relationship between reliability and customer satisfaction, previous researchers have come up with differing conclusions, some of the researchers found

that reliability and customer satisfaction has a significant and positive relationship whilst other researchers have come up with a different conclusion that there is no significant relationship. Shariff and Aniza (2013) determined that the overall analysis shows that the Malaysian bank as a whole has a direct positive relationship between reliability and customer satisfaction. The results also showed that the respondents thought that they can not rely on the employees of the bank and that the bank employees did not understand actual customer needs and wants. There fore adequate training is needed for improved service quality for the bank's employee. Also noted was the gap between service quality specifications and actual service delivery. This affected the customer perceived service quality in terms of the level of reliability on actual service delivered by the bank.

In their research, Razak et al., (2013) have indicated that there is a positive relationship between reliability and customer satisfaction that is consistent with results shown by Shariff and Aniza (2013) where they used the SPSS software to analyze data gathered from questionnaires distributed with the findings concluding that reliability of the services provided by the bank will influence a customer's satisfaction towards the quality of service provided by Bank Islam Malaysia Berhad (BIMB). According to Lo et al., (2010), reliability and customer satisfaction have no significant relationship. They found that customers may still stay with a bank even if they are dissatisfied with the service provided by the bank because they perceive they have no option or choice.

In other conclusions some researchers came out with different conclusion. Munusamy, Chelliah and Hor (2010) found that reliability does not have any significant impact on customer satisfaction. This result is probably because of the growth in the mobile and internet banking. Most banks have set up internet portals providing their customers with an alternative hence the customer does not need to concern themselves with the reliability levels of customer service. Machines have now replaced staff with services like cash withdrawal, deposits, credit cash, transfers etc being dispensed by machines or portals which have higher reliability than human beings when dealing with banks. Annamalah et al., (2011) posit that reliability and customer satisfaction are not related. They found that reliability, which is the bank's

ability to perform and deliver service dependably and accurately as promised was not a customer's priority.

A clear understanding between reliability and customer satisfaction can improve the bank services.

2.4.3 Responsiveness and Customer Satisfaction

Johnston (2017) defines responsiveness as speed and timeliness of service delivery. This consists of processing speed and service capabilities to respond promptly to customer service requests and wait a short and queuing time. More specifically, responsiveness is defined as the willingness or readiness of employees to provide services. It contains the timeliness of service (Parasuraman et al., 2012). It also contains understanding the needs and requirements of the customer, easy operation time, individual attention provided by the staff, attention to the problem and customers' safety in their dealings (Kumar et al., 2009). Finally, in this research, responsiveness is the readiness of banking service providers at a specific Arab bank headquarters to provide punctual services as perceived by a specific Arab bank headquarter's banking customers. This is measured using 4 items of the responsiveness dimension of the 22-item SERVQUAL. Customers are very sensitive to employees' working environment in service organizations" (Brown & Mitchell, 2013). Gollway and Ho (2016) reported that proper balance between staff skills and customers' expectation resulted in superior service quality towards customers.

Jayaraman, Shankar, and Hor (2010) indicate that responsiveness and customer satisfaction have a positive relationship but no significant impact. This result is inconsistent with previous researchers. Responses to the research by Munusamy, Chelliah, and Hor (2010) suggest that responsiveness has a positive relationship but no significant effect on customer satisfaction.

There fore this result shows that the bank customers prefer to deal with the machines rather than staff. Machines have a shorter response time compared to human beings and continual improvement every day while human being responsiveness is sometimes affected by emotions which causes low productivity and errors. Customers do understand that machines can sometimes break down but they can not accept where their requirements are not being responded to on time by the bank staff. Hence

the difference in perception by a customer between dealing with machines and human beings.

2.5 Conceptual Framework

Independent variables

Dependent variable

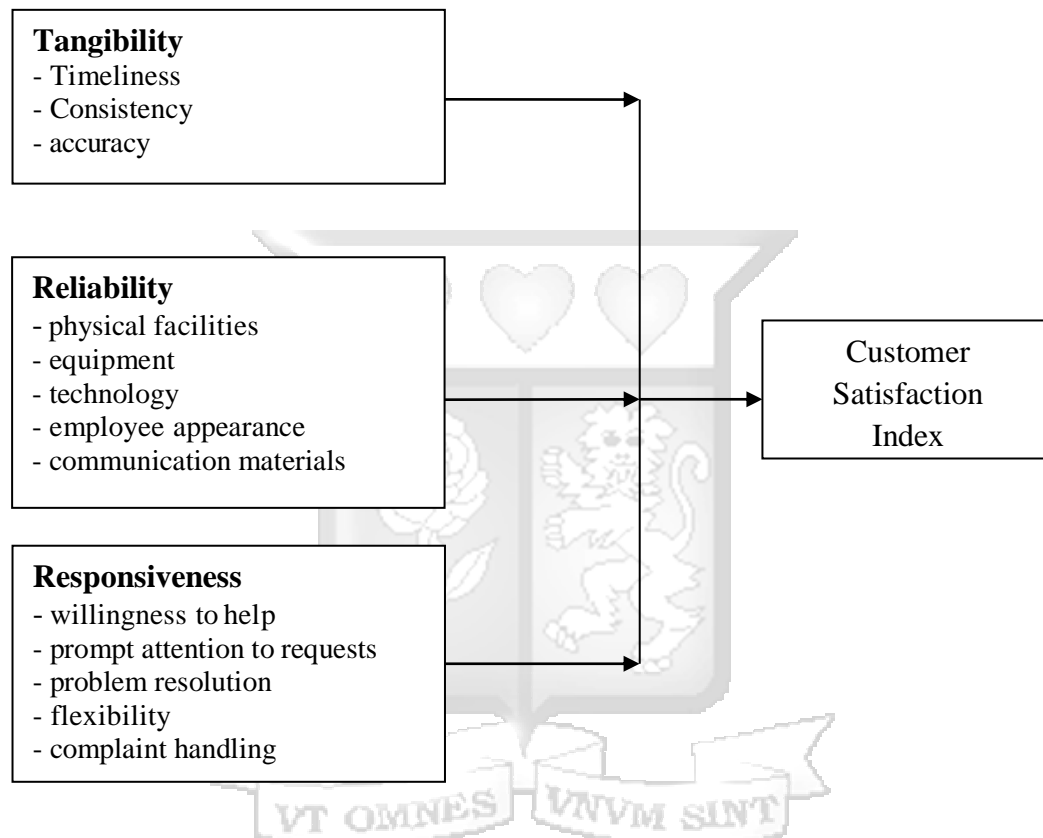


Figure 2.1 Conceptual Framework

2.6 Research gap

The indicators of SERVQUAL model being used in this study to measure service quality dimensions is generic and may not account for the uniqueness of the Kenya banking industry. Managing service quality is more complex, attributing to a larger group of customer representatives who interact with a service provider on a personal or functional level. Further, most of the existing empirical literature did not look at the five dimensions of SERVQUAL model. There exist contextual differences between the geographical scope of the afore-mentioned global empirical studies and the banking industry in Kenya, hence a knowledge gap exists. The SERVQUAL is argued

to be an instrument that chiefly focuses on service-delivery processes. Contrary to many service types, banks may not be physically present to experience the process of a banking service such as mobile and internet banking. It is thus conceivable that in the context of banking, Service quality is assessed with greater emphasis on technical quality. The application of SERVQUAL in the Kenyan industries especially the banking sector remains unattested and this study sought to ascertain the service quality dimensions as informed by SERVQUAL on the customer satisfaction among commercial banks in Kenya.



Table 2.1 Operationalization of Study Variables

| Variables/Dimension | Description | Specific criteria that customers use | 22 SERVQUAL attributes |
|---------------------|-------------------------------------|--------------------------------------|------------------------|
| Reliability | Ability to perform service | · Timeliness | 1. |
| | | · Consistency | 2. |
| | | · accuracy | 3. |
| Tangibility | Physical representation or | · physical facilities | 4. |
| | | · equipment | 5. |
| | | · technology | 6. |
| | | · employee appearance | 7. |
| | | · communication materials | 8. |
| Responsiveness | Willingness to help prompt services | · willingness to help | 9. |
| | | · prompt attention to requests | 10. |
| | | · problem resolution | 11. |
| | | · flexibility | 12. |
| | | · complaint handling | 13. |
| | | · | 14. |



CHAPTER 3: RESEARCH METHODOLOGY

3.1 The Research Design

The study explores three SERVQUAL service quality dimensions including; tangibility, reliability and responsiveness and their relationship with customer satisfaction at Equity Bank. To research on these dimensions, the study adopted a descriptive research design. Mugenda and Mugenda, (2008) state that descriptive research design is a method which enables the researcher to summarize and organize data in an effective and meaningful way. The design was appropriate for this study as it helps to describe the state of affairs in the banking sector with regard to influence of service quality on customer satisfaction without manipulation of variables (Kothari, 2004). A case study approach allowed the researcher to gain in-depth understanding of the problem being interviewed.

3.2 Population and Sampling

According to Kothari (2004), a population is a well-defined set of people, services, elements, events, group of things or households that are being investigated. Mugenda, and Mugenda (2008) explain that the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study. This definition assumes that the population is not homogeneous. Therefore, the target population of this study was the 150 managerial and non-managerial employees and 1,500-Equity Bank daily customers (Equity Bank Statistics, 2017).

Lavrakas (2008) defines a sampling frame as a list of the target population from which the sample is selected. For descriptive survey designs a sampling frame usually consists of a finite population. Polit and Beck (2014) refer to a sampling frame as the technical name for the list of the elements from which the sample is chosen from.

The study used probability (stratified random sampling) and non-probability sampling procedures (purposive sampling procedure) to identify the sample units. Stratified random sampling was applied in the study because it produces estimates of overall population parameters with great precision (Nsubuga, 2006). Lavrakaz (2008) states that a purposive sample, also referred to as a judgmental or expert sample, is a type of non-probability sample. The main objective of a purposive sample is to produce a

sample that can be logically assumed to be representative of the population. This is often accomplished by applying expert knowledge of the population to select in a non-random manner a sample of elements that represents a cross-section of the population. Kothari (2004) define purposive sampling as involving deliberate selection of particular units of the universe for constituting a sample which represents the universe. Burns and Grove (2003) in their study emphasize that purposive sampling method enable the researcher to select specific subjects who will provide the most extensive information about the phenomenon being studied.

From the target population of 150 managerial employees working at Equity Bank (Equity Bank HR, 2016), the study sampled 66.7% of these employees from each stratum based on bank departments. According to Kothari (2004) a representative sample should be 10-30% of the target population. This was also in conformity with Mugenda and Mugenda (2008) postulation that at least 10-30% of the target population is appropriate for statistical reporting. Therefore, the study therefore had a sample size of 100 management employees, which was 66.7% of the target population. The levels of management formed the stratum in the study. From each stratum the study used simple random sampling to proportionately select the managerial employees making up each management level.

Table 3.2 Sampling frame

| Management Level | Population | Sample | Percent (%) |
|--|------------|------------|-------------|
| Top level management | 25 | 15 | 60 |
| Middle level management | 45 | 30 | 75 |
| Client Facing Employees/retail banking | 80 | 55 | 68.75 |
| Total | 150 | 100 | 66.7 |

From a target population of 1,500-Equity Bank daily customers, the study used Israel (1992) sample size calculation formula as shown in equations 1 and 2 below.

$$n_0 = Z^2 pq / e^2 \quad (1)$$

For small populations, equation 1 was adjusted as shown in equation 2 below.

$$n = \frac{n_0}{1 + (n_0 - 1) / N} \quad (2)$$

Based on the two equations, the sample size would be

$$n_0 = 1.96^2 * 0.5 * 0.5 / 0.1^2 = 0.96 / 0.01 = 96$$

After adjusting, the final sample size became

$$n = \frac{n_0}{1 + (n_0 - 1) / N} = 96 / 1 + [(96 - 1) / 555] = 82$$

This gave the study a sample size of 82 Equity Bank customers. Therefore, the study sample size was 100 employees and 82 customers.

3.3 Data Collection Methods

The study was based on primary and secondary data where the primary data was collected by using a self-administered questionnaire. The reason for choosing questionnaire as the data collection instruments was primarily due to their practicability, applicability to the research problem and the size of the study sample. It is also cost effective (Denscombe, 2008). A self-administered questionnaire with both open and closed ended questions was developed and administered to obtain information from the 100 bank management staff members and 82 bank customers.

The secondary data was obtained from the published annual reports spanning five years (2013 - 2017) for the Equity Bank on customer satisfaction index as the study dependent variable. Secondary data was used in this study as it was factual and verifiable from the Equity Bank and Central Bank of Kenya Databases as customer satisfaction is one of the reported items in the banking statutory reporting.

The researcher obtained approval from Strathmore Business School, Equity Bank and a permit from the National Council for Science and Technology (NACOSTI) to conduct the study. The researcher explained the purpose of the study and offer guidance to the respondents on the way to fill in the questionnaire before administering the questionnaire. The questionnaires were administered using drop and pick later method with a time lapse of one week with a view to enhance the response rate.

3.4 Data Analysis

The study used primary data collected through the questionnaire where quantitative data was collected from closed ended questions while qualitative data was collected from open ended questions. In analyzing the quantitative data, the study applied descriptive statistics using Statistical Package for Social Sciences (Version 21). Measures of central tendency (mean), measures of dispersion (standard deviation), frequencies and percentage were the descriptive statistics that were applied on the quantitative data (Kothari, 2004). Qualitative data was analyzed using content analysis where the researcher developed a thematic framework from the key issues, concepts and themes emanating from the open-ended questions.

Graphical presentations, charts and tables were produced using MS-Excel to present the study findings. The data findings explanation was given in prose thereafter. The tables and graphical presentations showed the percentages, frequencies and means of the questions being analyzed. This increased the clarity of the findings and ensure that the findings were easily interpreted.

The simple regression analysis was used to determine the significance of each independent variable in affecting the customer satisfaction at Equity Bank. The results were said to be statistically significant within the 0.05 significance level, which means that the significance value must be smaller than 0.05. (Kothari, 2004).

3.5 Research Quality

Validity indicates the degree to which an instrument measures what it is supposed to measure; the accuracy, soundness and effectiveness with which an instrument measures what it is intended to measure (Kothari, 2004) or the degree to which results obtained from the analysis of the data actually represent the phenomena under study (Mugenda & Mugenda, 2008). The research instrument was availed to the management experts in the banking sector who ensured that validity was achieved to ensure that the items were adequately representative of the subject area being studied.

Reliability is a measure of the degree to which a research instrument yields consistent results after repeated trials (Nsubuga, 2006). The researcher carried out a pilot study among 12 management employees (10% of the sample) from three commercial banks

that did not participate in the main study. Using data from the pilot study, the reliability of the instrument was estimated using Cronbach's Alpha Coefficient which is the measure of internal coefficient. A reliability of at least 0.70 at $\alpha=0.05$ significance level of confidence was accepted. Adjustments were made accordingly in case a low co-efficient is obtained in order to improve on the instrument's reliability.

Table 4.3 Reliability test results

| | Cronbach alpha values |
|----------------|-----------------------|
| Tangibility | 0.732 |
| Reliability | 0.726 |
| Responsiveness | 0.714 |

From the pilot study results the study established that the Cronbach alpha values were higher above 0.7 for all the three study variables that included; tangibility (0.732), reliability (0.726) and responsiveness on customer satisfaction at Equity Bank. This was an indication that there was internal consistency and high reliability among the items/variables (tangibility, reliability and responsiveness) in measuring the concept of interest (customer satisfaction at Equity Bank).

3.6 Ethical Issues in Research

The study participants had to give their consent and their participation was voluntary in the entire process even when they withdrew before filling up the questionnaire in which case they were not penalized. All data collected was kept private and confidential. Confidentiality was assured by making the respondents not to indicate their names but instead the researcher used codes to identify the questionnaires. Anonymity was also observed. The researcher sought permission from the relevant authorities to conduct the research.

CHAPTER FOUR: PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

This chapter is a presentation of research findings on the management perception of influence of service quality on customer satisfaction among commercial banks in Kenya, a case study of Equity Bank. The service quality dimensions that formed the study specific objectives were; tangibility, reliability and responsiveness. The study had a sample size of 100 respondents to whom questionnaire were administered.

Table 4.4 Response rate

| Response Rate | Bank Management staff | Bank Customers |
|----------------------------|------------------------------|-----------------------|
| Questionnaire administered | 100 | 100 |
| Questionnaire returned | 75 | 90 |
| Response rate (%) | 75% | 95% |

Out of the 100 respondents that questionnaires were administered to, only 75 of them returned the questionnaires duly filled in contributing to a response rate of 75% which was representative and adequate for statistical reporting.

4.2 Background Information

The findings on the background information of the respondents are as shown in Table 4.4 below. On the years of work experience in the banking sector, the study established that 40% of the respondents had worked in the banking sector 6-10 years, 36% for 1-5 years while 24% had worked for over 10 years. This implies that majority (64%) of the respondents had a longstanding work experience having worked in the banking industry for over 6 - 10 years. Given such extensive work experience, they were the best suited to explain the influence of service quality on customer satisfaction.

On the staff's highest level of education, 56% of the respondents were degree holders, 29.3% were diploma holders while 14.7% had master's degree. The Equity Bank staff

therefore had sufficient educational and professional background to understand the role of service quality on customer satisfaction within their bank.

With regard to how long the customers interviewed had been Equity Bank customers, 42.7% had been for 6-10 years, 29.3% for over 10 years while 28% had been for 1-5 years. The findings implied that the customers involved in the study had patronized banking services of Equity Bank long enough to give a fair view of service quality and customer satisfaction at Equity Bank based on their long experience with the bank.

Table 4.5 Background Information

| What is your highest level of education? | Frequency | Percent (%) |
|--|------------------|--------------------|
| Diploma | 22 | 29.3 |
| Graduates | 42 | 56 |
| Masters | 11 | 14.7 |
| Total | 75 | 100 |
| How long in years, have you been working in the banking sector? | | |
| 1-5 years | 27 | 36 |
| 6-10 years | 30 | 40 |
| Over 10 years | 18 | 24 |
| Total | 75 | 100 |
| How long one has been Equity Bank customer? | | |
| 1-5 years | 23 | 28.0 |
| 6-10 years | 35 | 42.7 |
| Over 10 years | 24 | 29.3 |
| Total | 82 | 100 |

4.3 Service Quality

To measure service quality, the study compared customer expectations and perceptions on each of the three service quality dimensions of; tangibility, reliability and responsiveness.

4.3.1 Tangibility and customer satisfaction

The first objective was to investigate the management perception of the influence of tangibility on customer satisfaction at Equity Bank. To measure tangibility, the study compared customer expectations and perceptions on aspect of banking services offered. The customer expectations and perceptions were measured using a 5-point Likert scale with higher mean scores indicating higher levels of expectations and perceptions. Tangible dimension includes physical facilities, equipment, personnel and communication material and if the personnel appear neat.

Based on the findings in Table 4.5 below, customer expectation of service quality in respect to tangibles was very high as indicated by the overall mean score of the Equity Bank management staff (4.25) and customers (4.22) out of the highest possible mean score of 5.00. This was a relatively high mean scores which was an indication that the commercial bank customers' expectations on tangibility was very high. This implied that the customers expected the bank to offer excellent physical facilities; and used cutting edge equipment and technology while their employee appearance was also expected to be excellent.

On the other hand, customer perception of service quality in respect to tangibles was also high as depicted by the overall mean score of the Equity Bank management staff (4.12) and customers (3.93) out of the highest possible mean score of 5.00.

Comparing the overall mean score of customer expectation and customer perception of service quality in respect to tangibles, there was a gap of (-1.05) Equity Bank management staff and (-0.29) for customers. The bank staff had a higher gap value than customers which could be attributed to the fact that they were insiders and therefore had better appreciation of the bank functioning with respect to tangibility. In both cases, customer expectations on tangibles was higher than perceptions, resulting in a negative perception – expectation gap score. Therefore, the service quality in terms of tangibility does not meet customer expectations which required to be enhanced to contribute towards improved customer satisfaction. The customers do not think that the banks fulfill their expectations about physical appearance, modern looking equipment, the appearance of the employees.

Table 4.6 Tangibility expectation and perception

| | Bank Management staff | | | Bank Customers | | |
|---|-----------------------|--------------|---------------|----------------|--------------|---------------|
| | N | Mean | Std dev | N | Mean | Std dev |
| Customer expectation | | | | | | |
| The bank has visually appealing physical facilities | 75 | 4.27 | 0.50225 | 82 | 4.24 | 0.55691 |
| The bank's location is convenient | 75 | 4.25 | 0.57171 | 82 | 4.22 | 0.60908 |
| The bank uses modern and appropriate equipment and technology | 75 | 4.25 | 0.61717 | 82 | 4.22 | 0.62902 |
| The employees of the bank are well dressed and neat in appearance | 75 | 4.23 | 0.53457 | 82 | 4.21 | 0.51491 |
| Tangibility customer expectation rating overall mean score | 75 | 4.25 | 0.5564 | 82 | 4.22 | 0.5775 |
| Customer perception | N | Mean | Std dev | N | Mean | Std dev |
| The bank has visually appealing physical facilities | 75 | 4.13 | 0.57735 | 82 | 3.95 | 0.79973 |
| The bank's location is convenient | 75 | 4.12 | 0.63587 | 82 | 3.94 | 0.82174 |
| The bank uses modern and appropriate equipment and technology | 75 | 4.12 | 0.54426 | 82 | 3.93 | 0.69886 |
| The employees of the bank are well dressed and neat in appearance | 75 | 4.11 | 0.68917 | 82 | 3.91 | 0.67038 |
| Tangibility customer perception rating overall mean score | 75 | 4.12 | 0.6116 | 82 | 3.93 | 0.7476 |
| Gap | | -0.13 | | 82 | -0.29 | |

4.3.2 Reliability and customer satisfaction

The second objective was to determine the management perception of the effect of reliability on customer satisfaction at Equity Bank. The first objective was to investigate the influence of tangibility on customer satisfaction at Equity Bank. To measure reliability, the study compared customer expectations and perceptions on aspect of banking services offered. The customer expectations and perceptions were measured using a 5-point Likert scale with higher mean scores indicating higher levels of expectations and perceptions.

As Table 4.6 below shows reliability as a service quality dimension had high overall mean scores at 4.18 according to Equity Bank management staff and 4.15 according to customers. This meant that the commercial bank customers' expectations on reliability of service quality was very high. Therefore, the bank customers expected the bank staff to handle customer transactions in a timely, consistent and accurate manner.

On the other hand, the customer perception scores on reliability was a mean of 4.07 according to Equity Bank management staff and 4.02 according to customers. Comparing the overall mean score of customer expectation and customer perception of service quality in respect to reliability, there was a gap of (-0.11) Equity Bank management staff and (-0.13) for customers. This meant that customer expectations were higher than perceptions, resulting in a negative perception – expectation gap score. Therefore, the service quality in terms of reliability does not meet customer expectations. This implied that customer expectations were higher than perceptions, resulting in a negative gap score (Perception – Expectation). The staff ability to handle customer transactions in a timely, consist and accurate manner was below customer expectation. Therefore, the service quality in terms of reliability does not meet customer expectations which required to be enhanced to contribute towards improved customer satisfaction. The bank staff had a higher gap value that customers which could be attributed to the fact that being insiders they had better appreciation of the bank functioning with respect to reliability. This dimension constructs that were not met included keeping promises, showing a sincere interest in solving problem, give right service the first time, providing the service at the time the company promise to do so and trying to keep an error free record.

Table 4.7 Reliability customer expectation and perception

| | Bank Management staff | | | Bank Customers | | |
|--|-----------------------|-------------|---------------|----------------|-------------|---------------|
| | N | Mean | Std dev | N | Mean | Std dev |
| Customer expectation | | | | | | |
| The bank provide indemnity without hassle | 75 | 4.21 | 0.5994 | 82 | 4.18 | 0.59063 |
| The bank is financially stable | 75 | 4.20 | 0.61512 | 82 | 4.18 | 0.63105 |
| The bank's staff show sincere interest in solving customers' concern | 75 | 4.17 | 0.6012 | 82 | 4.15 | 0.5905 |
| The bank transact products and services of highest quality | 75 | 4.17 | 0.66522 | 82 | 4.13 | 0.68064 |
| The bank's staff promise to do something by a certain time and do so | 75 | 4.16 | 0.63756 | 82 | 4.11 | 0.6087 |
| Reliability customer expectation rating overall mean score | 75 | 4.18 | 0.6237 | 82 | 4.15 | 0.6203 |
| Customer perception | N | Mean | Std dev | N | Mean | Std dev |

| | | | | | | |
|--|-----------|--------------|---------------|-----------|--------------|---------------|
| Reliability | 75 | 3.32 | 0.7070 | 82 | | |
| The bank provide indemnity without hassle | 75 | 4.11 | 0.68917 | 82 | 4.06 | 0.63533 |
| The bank is financially stable | 75 | 4.07 | 0.84363 | 82 | 4.06 | 0.80657 |
| The bank's staff show sincere interest in solving customers' concern | 75 | 4.07 | 0.79412 | 82 | 4.02 | 0.7023 |
| The bank transact products and services of highest quality | 75 | 4.07 | 0.72286 | 82 | 4.00 | 0.68493 |
| The bank's staff promise to do something by a certain time and do so | 75 | 4.07 | 0.37966 | 82 | 3.96 | 0.65631 |
| Reliability customer perception rating overall mean score | 75 | 4.07 | 0.6858 | 82 | 4.02 | 0.6970 |
| Gap | | -0.11 | | | -0.13 | |

4.3.3 Responsiveness and customer satisfaction

The third objective was to establish the management perception of the influence of responsiveness on customer satisfaction at Equity Bank. The first objective was to investigate the influence of tangibility on customer satisfaction at Equity Bank. To measure responsiveness, the study compared customer expectations and perceptions on aspect of banking services offered. The customer expectations and perceptions were measured using a 5-point Likert scale with higher mean scores indicating higher levels of expectations and perceptions.

As Table 4.7 below shows responsiveness as a service quality dimension had high overall mean scores at 4.15 according to Equity Bank management staff and 4.10 according to customers. This meant that the commercial bank customers' expectations on responsiveness of service quality was very high. Therefore, majority of the Equity Bank customers expected the bank staff to be willing to help, offer prompt attention to their requests, resolve their problem promptly, be flexible and effectively handle customer complaint.

On the other hand, the customer perception scores on responsiveness was a mean of 4.01 according to Equity Bank management staff and 4.07 according to customers. Comparing the overall mean score of customer expectation and customer perception of service quality in respect to responsiveness, there was a gap of (-0.14) Equity Bank management staff and (-0.03) for customers. Hence, customer expectations with relevance to responsiveness was higher than perceptions, resulting in a negative gap

score (Perception – Expectation). The bank customers therefore felt that Equity Bank staff willingness to help, offer prompt attention to customer requests, resolve customer problem promptly, being flexible and effectively handle customer complaint was not up to their expectations. That means that the expectations are higher than the perceived service quality. Therefore, the service quality in terms of responsiveness does not meet customer expectations and therefore required to be enhanced to contribute towards improved customer satisfaction. The bank staff had a higher gap value that customers which could be attributed to their role as insiders who had a better appreciation of the bank functioning with respect to responsiveness. Therefore, dimension constructs were under met such as; information about the service, giving prompt service, employees willingness to help the customers and that the employees never are to busy to respond to requests from customers. Therefore, customers do not think that the banks fulfill their expectations in this dimension.

Table 4.8 Responsiveness customer expectation and perception

| | Bank Management staff | | | Bank Customers | | |
|--|-----------------------|-------------|---------------|----------------|-------------|---------------|
| | N | Mean | Std dev | N | Mean | Std dev |
| Customer expectation | | | | | | |
| The bank’s employees are happy and willing to serve customers | 75 | 4.16 | 0.59366 | 82 | 4.11 | 0.6087 |
| The bank’s staff tell customers exactly when services will be performed | 75 | 4.15 | 0.78316 | 82 | 4.10 | 0.60061 |
| The bank’s staff will always be willing to help customers | 75 | 4.15 | 0.42532 | 82 | 4.10 | 0.60061 |
| The bank’s management are accessible, listen to and provide prompt and honest responses to customers inquiries | 75 | 4.13 | 0.57735 | 82 | 4.09 | 0.61265 |
| Responsiveness customer expectation rating overall mean score | 75 | 4.15 | 0.5948 | 82 | 4.10 | 0.6056 |
| Customer perception | | | | | | |
| The bank’s employees are happy and willing to serve customers | 75 | 4.03 | 0.73472 | 82 | 4.09 | 0.47665 |
| The bank’s staff tell customers exactly when services will be performed | 75 | 4.01 | 0.6471 | 82 | 4.06 | 0.55216 |
| The bank’s staff will always be willing to help customers | 75 | 4.01 | 0.62587 | 82 | 4.06 | 0.67307 |
| The bank’s management are accessible, listen to and provide prompt and honest | 75 | 3.99 | 0.53254 | 82 | 4.06 | 0.67307 |

| | | | | | | |
|---|-----------|-------------|---------------|----|-------------|---------------|
| responses to customers inquiries | | | | | | |
| Responsiveness customer perception rating overall mean score | 75 | 4.01 | 0.6350 | 82 | 4.07 | 0.5937 |
| Gap | | -0.14 | | | -0.03 | |

4.4 Customer Satisfaction

From the secondary data the study sought to ascertain customer satisfaction as the dependent variable for Equity Bank. The customer satisfaction index was based on secondary data on annual customer satisfaction survey done by the Equity Bank as per central bank statutory requirements for the financial years 2013 to 2017. The findings in Figure 4.2 below indicated that the customer satisfaction in Equity Bank increased progressively for the five-year period (2013-2017) from 75% to 87%. The increase in customer satisfaction in Equity Bank was attributed to banks investment in improvement in banking service quality to their customers. The findings are similar to Think Business (2016) who awarded Equity Bank with the best Bank with highest customer satisfaction in 2016 and 2017.

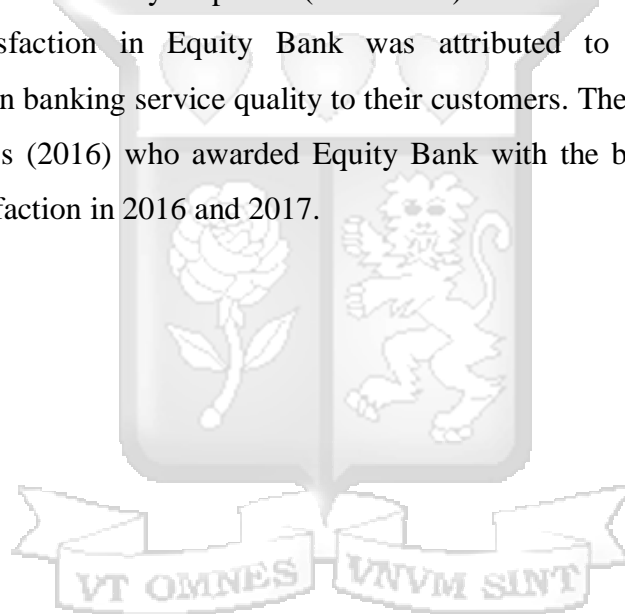
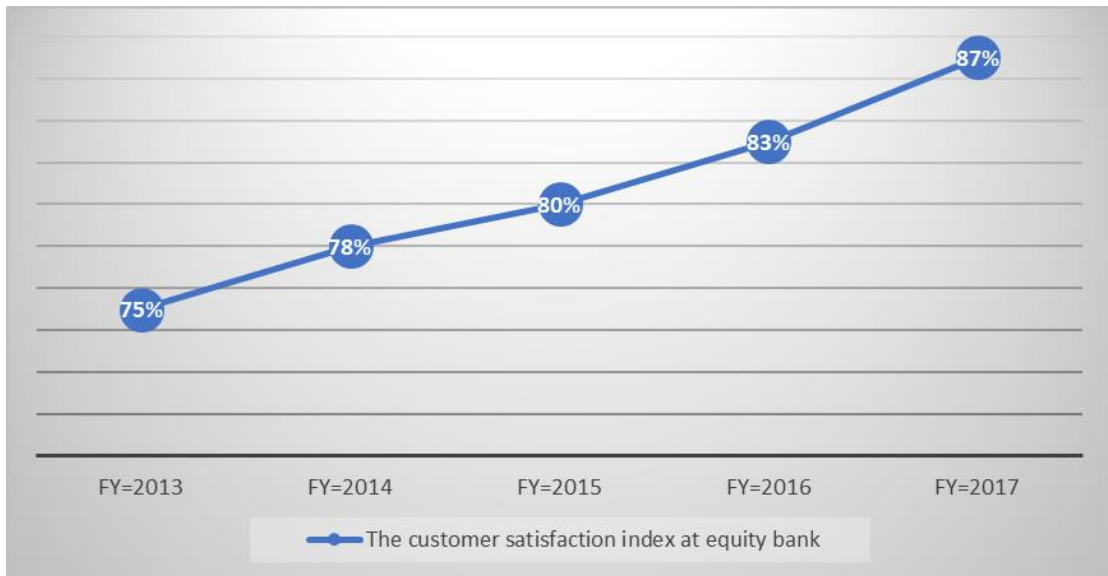


Figure 4.2 Trend of equity bank Customer Satisfaction index



Source: Equity Bank customer satisfaction survey results (2013-2017)

To corroborate the above findings, the equity bank customers were required to indicate their level of satisfaction with the banking services by the bank. According to the findings in Figure 4.3 below, 36.6% of the equity bank customers were satisfied with the services offered, 30.4% were very satisfied, 17.1% were moderately satisfied while 9.6% were dissatisfied. The majority of the (67%) equity bank customers reported being satisfied with the banking services hence the bank enjoyed high customer satisfaction.

Figure 4.3 Customer Satisfaction Rating by customers



4.5 Relationship between service quality and customer satisfaction

To confirm relationship between service quality and customer satisfaction, the study used T-test analysis. Paired samples t-test of significance was applied to test whether the change in the three independent variables (tangibility, reliability and responsiveness) were statistically significant in explaining customer satisfaction at Equity Bank. The t-test of significance was used to test whether the change in the independent variables was statistically significant.

The paired t-test results in Table 4.8 below revealed that tangibility is significant in explaining customer satisfaction at Equity Bank with a significance value of 0.021 which is less than the p-value (0.05). Due to this finding we fail to accept the null hypothesis and conclude that tangibility has a significant influence on the customer satisfaction at Equity Bank.

Table 4.9 Paired Samples Test results for reliability and customer satisfaction

| | Paired Differences | | | | | t | Df | Sig. (2-tailed) |
|-----------------------|--------------------|----------------|-----------------|---|---------|-------|----|-----------------|
| | Mean | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| tangibility | -.14667 | .53760 | .06208 | -.27036 | -.02298 | 2.363 | 74 | .021 |
| customer satisfaction | -.28000 | .62731 | .07244 | -.42433 | -.13567 | 3.866 | 74 | .000 |

The paired t-test results in Table 4.9 below revealed that reliability is significant in explaining customer satisfaction at Equity Bank with a significance value of 0.02 which is less than the p-value (0.05). Due to this finding we fail to accept the null hypothesis and conclude that reliability has a significant influence on the customer satisfaction at Equity Bank.

Table 4.10 Paired Samples Test results for reliability and customer satisfaction

| | Paired Differences | | | | | t | Df | Sig. (2-tailed) |
|-----------------------|--------------------|----------------|-----------------|---|---------|-------|----|-----------------|
| | Mean | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| reliability | -.30667 | .82156 | .09487 | -.49569 | -.11764 | 3.233 | 74 | .002 |
| customer satisfaction | -.42667 | .90305 | .10427 | -.63444 | -.21889 | 4.092 | 74 | .000 |

The paired t-test results in Table 4.10 below revealed that responsiveness is significant in explaining customer satisfaction at Equity Bank with a significance value of 0.009 which is less than the p-value (0.05). Due to this finding we fail to accept the null hypothesis and conclude that responsiveness has a significant influence on the customer satisfaction at Equity Bank.

Table 4.11 Paired Samples Test results for responsiveness and customer satisfaction

| | Paired Differences | | | | | t | Df | Sig. (2-tailed) |
|-----------------------|--------------------|----------------|-----------------|---|---------|--------|----|-----------------|
| | Mean | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| responsiveness | -.22667 | .72733 | .08398 | -.39401 | -.05932 | -2.699 | 74 | .009 |
| customer satisfaction | -.42667 | .90305 | .10427 | -.63444 | -.21889 | -4.092 | 74 | .000 |



CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study sought to establish the management perception of influence of service quality on customer satisfaction among commercial banks in Kenya, a case study of Equity Bank. The study specific objectives were to; investigate the influence of tangibility on customer satisfaction at Equity Bank; determine the effect of reliability on customer satisfaction at Equity Bank; and to establish the influence of responsiveness on customer satisfaction at Equity Bank.

The study key finding was that service quality had a significant influence on customer satisfaction among commercial banks in Kenya, a case study of Equity Bank. Specifically, tangibility dimension of service quality was very instrumental in enhancing customer satisfaction where Equity Bank leveraged on Tangibles to drive the customer satisfaction agenda. In line with tangibility, the Equity Bank was noted to have excellent physical facilities; and used cutting edge equipment and technology while their employee appearance was excellent.

Similarly, service quality in respect to reliability was also very high. The Equity Bank customers noted that the bank staff handled their banking transactions in a timely, consistent and accurate manner. In addition, the service quality in respect to responsiveness was also very high. Therefore, majority of the Equity Bank customers noted that the bank staff were willing to help, offered prompt attention to their requests, resolved their problem promptly, were flexible and effectively handled customer complaint.

The study further established that tangibility has a significant influence on the customer satisfaction at Equity Bank. Similarly, reliability has a significant influence on the customer satisfaction at Equity Bank. In addition, responsiveness has a significant influence on the customer satisfaction at Equity Bank.

5.2 Discussion

The study established that tangibility as a service quality dimension had a relatively high mean scores an indication that the commercial bank customers' expectations on service quality as very high. Therefore, the customers expected the bank to offer excellent physical facilities; and used cutting edge equipment and technology while their employee appearance was also expected to be excellent. On the other hand, customer expectations were higher than perceptions, resulting in a negative gap score (Perception – Expectation). Therefore, the service quality in terms of tangibility aspects fell short of customer expectations with regard to physical facilities, equipment, technology, employee appearance and communication used by the bank.

The findings are similar to Munusamy, Chelliah and Hor (2010) further discuss that there is a significant relationship and positive correlation between tangibility and customer satisfaction. Similarly, Walker (2010) noted that reliability is a significant factor of product quality in addition to good personal service, staff attitude, knowledge and skills. Jayaraman, Shankar, and Hor (2010) indicate that responsiveness and customer satisfaction have a positive relationship.

The study further revealed that commercial bank reliability of service quality was rated very high. Therefore, the bank customers the bank staff were timely, consistent and accurate in handling their customer transactions. However, there were gaps in reliability of bank services, meaning that the staff ability to handle customer transactions in a timely, consist and accurate manner was not in keeping with the recent radical changes in banking service delivery. Therefore, the service quality in terms of reliability fell below customer expectations which required to be enhanced to contribute towards improved customer satisfaction.

The findings concur with earlier findings of Zeithaml and Bitner, (2016) who attested that customer need a provider to keep their promises to provide the best services as their promise. Reliability depends on handling customer service issues, performs the services right the first time; offers services on time, and maintain a record of error-free. Similarly, according to Berry et al., (1990) showed that reliability is a significant factor of product service quality. Razak et al., (2013) have indicated that there is a positive relationship between reliability and customer satisfaction.

In addition, the study established that the commercial bank customers' expectations on responsiveness of service quality was very high. Therefore, majority of the Equity Bank customers expected the bank staff to be willing to help, offer prompt attention to their requests, resolve their problem promptly, be flexible and effectively handle customer complaint. The customer expectations with relevance to responsiveness was higher than perceptions, resulting in a negative gap score (Perception – Expectation). The bank customers therefore felt that Equity Bank staff willingness to help, offer prompt attention to customer requests, resolve customer problem promptly, being flexible and effectively handle customer complaint was not up to their expectations. Therefore, the service quality in terms of responsiveness does not meet customer expectations and therefore required to be enhanced to contribute towards improved customer satisfaction.

The findings are similar to Munusamy, Chelliah, and Hor (2010) who suggest that responsiveness has a positive relationship but no significant effect on customer satisfaction. Spreng and Singh (1993) found out that increase in service quality lead in increase in customer satisfaction. Service quality is a determinant of customer satisfaction, because service quality comes from outcome of the services from service providers in organizations (Parasuraman et al., 1988).

The study also found that the customer satisfaction in Equity Bank increased progressively for the five-year period (2013-2017). The increase in customer satisfaction in Equity Bank was attributed to banks investment in improvement in banking service quality to their customers. The findings are similar to Think Business (2016) who awarded Equity Bank with the best Bank with highest customer satisfaction in 2016 and 2017.

The study further showed that reliability as a service quality SERVQUAL dimension contribute the most to customer satisfaction followed by responsiveness and tangibles respectively. The most significant service quality dimension influencing customer satisfaction among commercial banks in Kenya is reliability, followed by responsiveness and tangibility respectively.

The findings are similar to Hellen (2014) who revealed that five service quality dimensions except empathy was found to influence customer satisfaction. Similarly,

customer expectations were relatively higher than the perception hence resulting into dissatisfaction. Therefore, it was recommended that certified public accountants training institutions should focus on improving all the five dimensions so as to achieve high customer satisfaction in order to obtain competitive advantage

5.2 Conclusion

The study concludes that tangibility as a service quality dimension had a relatively high mean scores an indication that the Equity bank customers' expectations on service quality as very high. Therefore, the customers expected the bank to offer excellent physical facilities; and used cutting edge equipment and technology while their employee appearance was also expected to be excellent. On the other hand, customer expectations were higher than perceptions, resulting in a negative gap score (Perception – Expectation). Therefore, the service quality in terms of tangibility aspects fell short of customer expectations with regard to physical facilities, equipment, technology, employee appearance and communication used by the bank.

The study further concludes that Equity bank customers' expectations on reliability of service quality was very high. Therefore, the bank customers expected the bank staff to be timely, consistent and accurate in handling their customer transactions. However, customer expectations on reliability of bank services was higher than perceptions, meaning that the staff ability to handle customer transactions in a timely, consist and accurate manner was also below customer expectation. Therefore, the service quality in terms of reliability fell below customer expectations which required to be enhanced to contribute towards improved customer satisfaction.

In addition, the study concludes that the Equity bank customers' expectations on responsiveness of service quality was very high. Therefore, majority of the Equity Bank customers expected the bank staff to be willing to help, offer prompt attention to their requests, resolve their problem promptly, be flexible and effectively handle customer complaint. The customer expectations with relevance to responsiveness was higher than perceptions, resulting in a negative gap score (Perception – Expectation). The bank customers therefore felt that Equity Bank staff willingness to help, offer prompt attention to customer requests, resolve customer problem promptly, being flexible and effectively handle customer complaint was not up to their expectations.

Therefore, the service quality in terms of responsiveness does not meet customer expectations and therefore required to be enhanced to contribute towards improved customer satisfaction.

In terms of significance, tangibility has a significant influence on the customer satisfaction at Equity Bank; reliability has a significant influence on the customer satisfaction at Equity Bank while responsiveness also has a significant influence on the customer satisfaction at Equity Bank.

The customer satisfaction in Equity Bank increased progressively for the five-year period (2013-2017). The increase in customer satisfaction in Equity Bank was attributed to banks investment in improvement in banking service quality to their customers. There was a positive effect was found on all the three SERVQUAL dimensions, that is, reliability, responsiveness and tangibles. Reliability was the service quality dimension that contributed the most to customer satisfaction followed by responsiveness and tangibles respectively. The most significant service quality dimension influencing customer satisfaction among Equity banks customers is reliability, followed by responsiveness and tangibility respectively.

5.3 Recommendations

The study confirmed that there was a gap in the tangibility part of service quality with regard to physical facilities, equipment, technology, employee appearance and communication used by the bank. The management of Equity bank in Kenya should seek to acquire the latest equipment, technology and communication tools as well as improve on the outlook of their physical facilities and their employee attires.

In terms of responsiveness, it was revealed that majority of the Equity Bank customer's expectation exceeded their perception in terms of the bank staff willingness to help, offer prompt attention to their requests, resolve their problem promptly, be flexible and effectively handle customer complaint. The Equity Bank management should invest in building the capacity of the staff to enhance customer banking experience.

The study revealed that Equity Bank staff ability to handle customer transactions in a timely, consist and accurate manner was below customer expectation. The bank

management should institutionalize high standard reliability in their customer service to enhance customer satisfaction. This should be coupled with continuous monitoring of the reliability standards acquired to ensure meeting of the customer needs.

5.4 Areas for Further Research

Similar studies should be conducted on the influence of service quality on customer satisfaction among SACCOs in Kenya.



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Appendices

Appendix 1: Questionnaire

Introduction,

This questionnaire is meant for Equity Bank management employees and Equity Bank customers. The tool seeks to gain information on the study on the management perception of influence of service quality on customer satisfaction among commercial banks in Kenya, a case study of Equity Bank. Your response to each of the questions based on your work experience will be very useful. Kindly give your consent before participating in the study.

Section A: Background Information

1. How long have you been the customer at Equity Bank?
 - a) Less than 1 year []
 - (b) 1-5 years []
 - (c) 6-10 years []
 - (c) Over 10 years []
2. What is your highest level of education?
 - (a) Diploma (b) Certificate [] (c) Graduates []
 - (d) Masters [] (e) PhD []
2. How long in years, have you been working in the banking sector?
 - a) Less than 1 year []
 - (b) 1-5 years []
 - (c) 6-10 years []
 - (c) Over 10 years []

Section B: Service Quality.

- 1) This section asks your opinion of the delivery of services to the customer in all process of banking service. Please indicate the extent to which you think that your bank should possess the feature described. Please kindly circle one of the five numbers of each statement that best represents your expectations about

the level of service(s) that your bank should provide. Use a scale of 1 to 3, where; 1=Not important, 2= Important, 3= very important.

2)

| Tangibles | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| The bank has visually appealing physical facilities | | | | | |
| The bank's location is convenient | | | | | |
| The bank uses modern and appropriate equipment and technology | | | | | |
| The employees of the bank are well dressed and neat in appearance | | | | | |
| Reliability | | | | | |
| The bank provide customer with information freely | | | | | |
| The bank is financially stable | | | | | |
| The bank's staff show sincere interest in solving customers' concern | | | | | |
| The bank transact products and services of highest quality | | | | | |
| The bank's staff promise to do something by a certain time and do so | | | | | |
| Responsiveness | | | | | |
| The bank's employees are happy and willing to serve customers | | | | | |
| The bank's staff tell customers exactly when services will be performed | | | | | |
| The bank's staff will always be willing to help customers | | | | | |
| The bank's management are accessible, listen to and provide prompt and honest responses to customers inquiries | | | | | |

Section C: Customer perception

- 3) The following section asks your opinion related to customer experiences in your bank in the entire banking process. Use a scale of 1 to 5, where 1= Dissatisfied, 2= Satisfied, 3=very Satisfied.

| Tangibles | 1 | 2 | 3 | 4 | 5 |
|--|----------|----------|----------|----------|----------|
| The bank has visually appealing physical facilities | | | | | |
| The bank's location is convenient | | | | | |
| The bank uses modern and appropriate equipment and technology | | | | | |
| The employees of the bank are well dressed and neat in appearance | | | | | |
| Reliability | | | | | |
| The bank provide indemnity without hassle | | | | | |
| The bank is financially stable | | | | | |
| The bank's staff show sincere interest in solving customers' concern | | | | | |
| The bank transact products and services of highest quality | | | | | |
| The bank's staff promise to do something by a certain time and do so | | | | | |
| Responsiveness | | | | | |
| The bank's employees are happy and willing to serve customers | | | | | |
| The bank's staff tell customers exactly when services will be performed | | | | | |
| The bank's staff will always be willing to help customers | | | | | |
| The bank's management are accessible, listen to and provide prompt and honest responses to customers inquiries | | | | | |

Section D: Customer Satisfaction

- 4) How would you rate customer satisfaction in Equity Bank?

Very satisfied [] Satisfied [] moderately satisfied []

Dissatisfied [] Very Dissatisfied []

- 5) The following statements are related to customer Satisfaction. To what extent do you agree with each of the statements. Use a scale of 1-5 where 1= Extremely low, 2-Low, 3-Neutral, 4-Very High and 5= Extremely high.

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| The customer satisfaction level with banks | | | | | |
| Willingness to refer another client to purchase goods from services | | | | | |
| Employee retention | | | | | |

Thank you for your time and participation



Appendix 1: Approval Letter



The Human Resource Department,
Equity Bank, Kenya Limited,
PO BOX 75104-00200
Nairobi Kenya.

17th May, 2018

TO WHOM IT MAY CONCERN,

Dear Sir/Madam,

RE: Assistance with Filling in an Academic Questionnaire

Your attention is drawn to the need to assist M/s Lorna Wachira, a Strathmore MBA finalist with relevant information on her study a case of Equiry Bank. The study topic is; **Influence of Service Quality on Customer Satisfaction among Commercial Banks in Kenya, a Case Study of Equity Bank.**

Therefore, respond to the questionnaire she will administer to you. Thank you for co-operation.

Sincerely,

A handwritten signature in blue ink, appearing to be "P. R.", is written over a light grey rectangular background.

For HR Manager.

VI UNIVERSITY OF VICTORIA