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PERCEIVED SERVICE QUALITY AND CUSTOMER LOYALTY IN RETAIL BANKING IN KENYA

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ABSTRACT: *The main aim of this study is to examine the effect of service quality dimensions on customer loyalty to the providers of retail banking services. It investigates the relationship between service quality dimensions and customer loyalty. To achieve this purpose, data was collected from a sample of 384 current customers of commercial banks on the five dimensions of service delivery: tangibility, reliability, responsiveness, assurance and empathy. The results indicate that all the dimensions of service quality have a positive and significant influence on customer loyalty in retail banking .This finding reinforces the need for bank managers to place an emphasis on the underlying dimensions of service quality in order to create and maintain customer loyalty*

KEYWORDS: Assurance, Customer Loyalty, Empathy, Reliability, Responsiveness, Service Quality, Tangibility

INTRODUCTION

The premise of `quality of service’ as the competitive edge in gaining market leadership has gained significant attention by both practitioners and scholars alike .In particular service firms recognized the need to not only attract customers but also to forge and maintain long-term relationship with them in order to create a competitive edge in an ever increasing competitive marketplace.

The dynamic nature of the financial system is creating the need to focus more on the customer rather the product in order to be competitive. The sector has been characterized by the emergence of new forms of banking channels such as Internet banking, Automated Teller Machines (ATM), phone banking, maturing financial market and global competition that are forcing bankers to explore the importance of customer loyalty and maintaining lasting relationships with customers. Banks management needs to develop strategies that will differentiate them from their competitors. Competitive advantage can be created through the delivery of high service quality. Service quality has been proven to lead to customer loyalty (Caruana, 2002). Excellence in service quality is a key to achieve customer loyalty which is the primary goal of business organizations, due to the advantages of customer retention (Ehigie, 2006). Today, the increasing awareness among bank customers of their rights, changing demands and highly competition requires constant progress in service quality from the bank for their customers to stay loyal. The present research examined the extent of service quality delivery in retail banks that eventually leads to customer loyalty.

Service quality can be used to differentiate between two service provider's services and to win strategic competitive advantage. The service quality delivered is a key determinant of overall satisfaction, which in turn leads to customer retention and loyalty (Ennew and Binks ,1999).Service quality is considered one of the most significant antecedent of customer loyalty in service industries (Fullerton,2005).The quality of transactions between service provider and customer may improve the bank customer relationship into a long-term, closer and trustful relationship

Service quality has been important primary competitive tool for banks to achieve success in the market place with commonly undifferentiated services. Delivering quality service to customers is a must for success and survival in today’s competitive banking. Service quality has drawn attention of researchers and managers in recent decades (Zeithaml, 2000). It has become a significant subject because of its impact on customer loyalty. By satisfying customers through high quality service, business firms not only retain their current customers, but also increase their market share (Finn and Lamb, 1991).

Service quality is widely recognized as being a critical determinant for the success of an organization in today’s competitive environment. Any decline in customer satisfaction due to poor service quality would be a matter of concern. “Consumers being more aware of rising standards in service, prompted by competitive trends, have developed higher expectations” (Marshall et al., 1998).

Zeithaml et al. (1996) define customer loyalty as intention of the customer to stay with the organization and their commitment to increase the breadth (i.e. through increased breadth of products or services purchased) and the depth (i.e. through increase in the volume of transaction) in the relationship with the firm (Eisingerich and Bell, 2006). It is the frequency of purchase or relative volume of same brand purchasing. Basically, a customer is loyal when he is committed to repurchase a preferred service or product even when there are marketing efforts and situational influence having the potential to cause switching behavior (Oliver, 1999).It is suggested to the companies to invest in relationship building and customer intimacy with loyal customer's as it will in turn lead to stronger loyalty (Ndubisi et al., 2004). The Customers who regularly purchase a company's products over a long period of time generate more revenues and are relatively cheaper to serve than other customers (Reichheld and Aspinall, 1993).

LITERATURE REVIEW

The concept of customer loyalty has attracted a lot of interest from practitioners and scholars its intricate relationship with a firm's performance. Customer loyalty is now accepted as indispensable in strategic decision making because it costs more to attract new customers than to retain old ones. Loyalty conceptualisation has two dimensions- attitudinal and behavioural. Attitudinal loyalty reflects a situation whereby different feelings create an individual's overall attachment to a product, service or organisation (Fornier, 1994). These feelings define the individual's cognitive degree of loyalty (Hallowell, 1996). The other dimension is behavioural. This reflects the degree to which attitudinal feelings are translated into loyalty behaviour. In other words it reflects intentions being translated into actions. Examples of loyalty behaviours given in the literature include continuing to purchase services from the same supplier, increasing the scale and scope of a relationship, or the act of recommending a product or service (Yi, 1990; Best, 2009) and increased purchase frequency and Word of Mouth (WOM) recommendation (De Ruyter et al., 1998.

The attitudinal aspect of customer loyalty encompasses long-term emotional commitment and trust to the organisation, its services, products and prices. Attitudinal loyalty is important to the conceptualisation because it denotes the customers' probability of future commitment to the organisation and the propensity to recommend the company to friends or colleagues (Reichheld, 2003). "Attitudinal" here refers to "the psychological tendency that is expressed by evaluating a particular entity with some degree of favour or disfavour" (Eagly and Chaiken, 1993). The attitudinal components of customer loyalty are identified as price sensitivity, brand allegiance, and the frequency of purchasing a particular brand (Rundle-Thiele and Mackay, 2001). Finally, the cognitive component includes attributes such as preference to a service organisation and belief that the organisation proffers the best offer and also attends to customer needs (Harris and Goode, 2004). Thus, as mentioned, customer loyalty reflects customer satisfaction. It however goes way beyond that.

Customer Loyalty

Customer loyalty is a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, thereby causing repetitive purchasing of the same brand, despite situational influences and marketing efforts. Gremler and Brown (1996) define it as "the degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using this provider when a need for this service arises. Loyalty is therefore an attitude or behavior that customers explicitly vocalize or exhibit.

Loyalty has both behavioral and attitudinal dimensions. The behavioral repurchase consists of repeated purchase of product while attitudinal loyalty refers to attitudinal commitment or favorable attitude toward a product resulting in repeat purchasing behavior. It is a biased purchase response resulting from an evaluative attitude favoring the purchase. Loyalty is thus viewed as the customer's demonstration of faithful adherence to an organization despite its occasional error or indifferent services. Dick and Basu (1994) conceptualize loyalty as the strength between repeat patronage and relative attitude which results from comparing a particular brand with competing brands. Customer loyalty is strong when a high relative attitude leads to repeat buying. A low relative attitude leads to low repeat purchase which equals no loyalty.

Loyalty in service businesses refers to the customer's commitment to do business with a particular organization, purchasing their products repeatedly and recommending others to the organization's products. Anderson and Jacobson (2000) say that customer loyalty is actually the result of an organization creating a benefit for customer so that they will maintain or increase their purchases from the organization. They indicate that true loyalty is created when the customer becomes an advocate for the organization without incentives.

The marketing literature is embracing customer relationship–based research due to the overwhelming evidence that the acquisition of new customers is a far more expensive process than retaining current customers (Berry, 1995). Service firms and in particular, commercial banks are interested in building and maintaining long-term relationships with their customers (Gwinner *et al..,* 1998,). In addition, strong customer relationships are shown to lead to increased sales, lower operating expenses and predictable profit streams (Reichheld, 1996). These loyalty outcomes include repurchase , less switching intentions and actions , positive word of mouth or recommendations, identification with service providers through exclusive affiliation a willingness to pay a premium price for a given service, customer citizenship behavior, co-production by customers, social benefits to other customers in the form of friendships, mentoring other less experienced customers by helping them to understand explicitly or implicitly stated rules of conduct (Rust & Zahorik , 1993, Gruen ,1995, Zeithaml *et al.,* 1996). Highlighting the importance of retaining customers through winning their loyalty, Reichheld and Sasser (1990) estimated that a 5% change in customer retentions would yield 25% to 100% profit swings across industries. Moreover, it costs more to replace defected customers than to prevent them from defecting (Zeithaml *et al*., 1996).

Service Quality

Quality can be defined as satisfying or exceeding customer requirements and expectations, and consequently to some extent it is the customer who eventually judges the quality of a product (Shen *et al.,* 2000). In the service, where production, delivery and consumption can occur simultaneously, the concept of quality refers to the matching between what customers expect and what they experience. Customers evaluate service quality by comparing what they want or expect to what they actually get or perceive they are getting (Berry *et al.,* 1988). Service Quality Service quality involves a comparison of expectations with performance. According to Zeithaman & Bitner (2003) service quality is a measure of how well a delivered service matches the customers' expectations. Banks have realized the significance of concentrating on quality of services as an approach to increase customer satisfaction and loyalty, and to develop their core competence and business performance (Kunst and Lemmink, 2000)

In this study, service quality has been defined as the difference between customers expectation for service performance prior to the service encounter and their perception of the service received. Customer's expectation serves as a foundation for evaluating service quality because, quality is high when performance exceeds expectation and quality is low when performance does not meet their expectation (Asubonteng et al., 1996). Expectation is viewed in service quality literature as desires or wants of consumer i.e., what they feel a service provider should offer rather than would offer (Parasuraman et al., 1988). Perceived service is the outcome of the consumer's view of the service dimensions, which are both technical and functional in nature.

The customer's total perception of a service is based on his/her perception of the outcome and the process; the outcome is either value added or quality and the process is the role undertaken by the customer. Parasuraman et al, (1988) define perceived quality as a form of attitude, related but not equal to satisfaction, and results from a consumption of expectations with perceptions of performance. Therefore, having a better understanding of consumers attitudes will help know how they perceive service quality in grocery stores.

Negi (2009) suggests that customer-perceived service quality has been given increased attention in recent years, due to its specific contribution to business competitiveness, developing satisfied and loyal customers. This makes service quality a very important construct to understand by firms by knowing how to measure it and making necessary improvements in its dimensions where appropriate especially in areas where gaps between expectations and perceptions are wide.

Douglas & Connor (2003), found that the consumer who has developed heightened perception of quality has become more demanding and less tolerant of assumed shortfalls in service quality and identify the intangible elements (inseparability, heterogeneity and perishability) of a service as the critical determinants of service quality perceived by a customer. It is very vital to note here that, service quality is not only assessed as the end results but also on how it is delivered during service process and its ultimate effect on consumer's perceptions (Douglas & Connor, 2003).

The ability to provide a quality service will, therefore, improve a commercial banks' ability to increase market share and profitability, whilst at the same time reducing their existing customer's switching propensity to another institution. Thus the ability to consistently provide a high quality service offering may well act as a key strategic differentiator. Furthermore, successful organizations perusing quality have realized that quality improvements must be focused where most productive (Keiningham, et al.,1995). Improved quality has a three-fold pay-off; namely reduced costs, increased customer retention, and attracting new customers drawn to the quality service provider (Keiningham *et al.*, 1995). In order to achieve service quality, it is important to identify key service expectations and focus efforts at the most beneficial point in the customer

It is the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Caruana, 2002). What counts in services is the conformance to the wishes of customers rather than to any predetermined set of specifications (Berry et al., 1988). As Lewis (1993) put it *"service quality is a measure of how well the service level delivered matches customer expectations. Thus, it* is the degree of discrepancy between customers' normative expectations for service and their perceptions of service performance (Parasuraman et al., 1985).*Delivering quality service means conforming to* *customer expectations on a consistent basis"*. This means that, in the final analysis, customers are the exclusive judges of service quality no matter what the marketer thinks. If customers disagree with the marketer's perspective then the service is problematic (Berry and Parasuraman, 1991). *"There is no other fact or reality about service quality but what customers perceive about a service"* (Lewis, 1993).

Service quality has been conceptualized as consisting of two dimensions technical and functional service quality Eisingerich and Bell , 2007).Sharma and Patterson (1999) explain the technical service quality as quality of service output and functional service quality as nature of interaction between customer and service institution. Other authors have also contributed to this theory and explained technical service quality as the 'core service' or the actual outcomes (Lovelock, 1996) or 'what is delivered' and functional quality as 'how' the service is delivered (Parasuraman et al.1994).Due to competition the technical quality is almost like a commodity as it is the same from all the suppliers but the difference is made through the functional service quality (Sharma and Patterson, 1999).

Service quality is the consumer's appraisal of overall quality of service delivery. It is the result of the comparison that consumers make between their expectations about a service and their perception of the way the service has been performed or delivered (Bitner and Hubbert 1994, Rust and Oliver, 1994). This appraisal typically is formed from disconfirmation of expectations of service performance (Parasuraman *et al.*, 1988) or through the assessment performance measures (Cronin & Taylor, 1992). The contention between the two approaches centers on whether service quality is the difference between customers' perceptions and expectations of a service or simply their perceptions.

The disconfirmation approach rests on expectations as reference points against which customers compare their perceived evaluations. Differences between expectations and evaluations denote perceived service quality (Zeithaml et al., 1999). Service quality is sufficient when perceptions equal or exceed expectations. Based on disconfirmation, Parasuraman et al., (1988), developed SERVQUAL, an instrument of items representing five service quality dimensions: reliability, responsiveness, tangibility, assurance and empathy to measure service quality. Studies found satisfactory loading of the scale items when using SERVQUAL to measure service quality across industries including banking and telecommunications (Caruana, 2002).

Some researchers, however, question if people assess service quality by first forming expectations and then comparing them with subsequent perceptions. They contend that perceived service quality arises only from perceptions of service performance, and hence measuring perceptions alone would yield a better indication of service quality than comparing perceptions and expectations. In support, performance –based measures often fare better than disconfirmation –based measures of service quality (Bitner & Hubbert, 1994, Boston & Drew, 1991, Brady *et al.*, 2002).

The difference between disconfirmation and performance – based measures of service quality may be that performance measures suit investigating how service quality relates to dependent factors, whereas disconfirmation–based measures are appropriate for diagnosing service shortfalls (Parasuraman *et al.*, 1994, Zeithaml 1996). This study adopted the SERVIQUAL model and was therefore disconfirmation- based. This study uses the SERVQUAL model to determine the relative importance of each of the service quality attributes which influence customer overall quality perceptions.

According to Zeithamal (2006), Services Quality is described as SERVQUAL by five dimensions constructs namely reliability, responsiveness, assurance, empathy and tangibles. Basically these dimensions represent the consumer's criteria of judging service quality. The service quality dimensions identified Zeithamal (2006) are explained below:

Reliability

The reliability construct in the SERVQUAL model represents the service provider's ability to perform the promised service dependably and accurately. This is achieved through keeping promises to do something, providing right service, consistency of performance and dependability, service is performed right at the first time, the company keeps its promises in accuracy in billing and keeping records correctly ,available merchandise and error-free sales transactions and records. Reliability also consists of accurate order fulfillment; accurate record; accurate quote; accurate in billing; accurate calculation of commissions; keep services promise. He also mentioned that reliability is the most important factor in banking services (Yang *et al.*, 2003). The higher customers appreciate on reliability, the higher the overall evaluation of retail service quality is (Ndubisi, 2006).

Tangibility

Tangibility relates to the physical aspects or evidence of a service. Physical aspects of retailer include appearance of equipment and fixtures, physical facilities, materials associated with the service, appearance of personnel and communication materials, Convenience of physical facilities and layouts. In addition to the appearance of the facilities, it also takes into account the convenience offered the customer by the layout of physical facilities (Ananth et al,2011). The higher customers appreciate on the physical aspects, the higher the overall evaluation of retail service quality is (Bellini et al., 2005).

Angur et al (1999) found that business premises should have a high standard of decoration and a nice environment to positively influence service quality which will consequently lead to customer loyalty. The physical service setting is a very important tangible factor that influences service quality perceptions. For instance, Bitner (1992) focused on the elements under the control of businesses at the point of interaction between customers and the firm, arguing that these controllable elements can affect perceptions of service quality and encourage repeat patronage

Bitner (1992) proposed that the physical setting of the place of service, including not only visual aspects such as color and texture, but also noise, odors, and temperature is of particular importance and capable of altering customer expectations and strongly influencing consumer

responses and satisfaction. Bitner (1992) called the combined physical and sensory elements of the place of service the servicescape.
Wakefield and Blodgett (1996) also found that servicescape in terms of layout, aesthetics, electronic displays, seating, and cleanliness on consumers' perceptions of service quality has a relatively consistent and strong effect on customer retention and their repatronage intentions. They noted that the strongest element in the perception of service quality was the "aesthetic appeal of the facility architecture and décor," remarking that customers' first impressions of the facilities influence their overall assessment of the services. Bonn& Mathews (2007) also found substantial evidence that the design of the physical setting and its associated sensory attributes can have a significant effect on customer satisfaction and on a customer's re-patronage decisions.

The professional appearance of staff is an important means of tangibilizing the intangible service products. Furthermore, the tangibles of a service or service provider can be represented by the physical appearance of employees and other physical infrastructures. This has also seen the introduction of a dress code or uniform for bank employees across the country (Kim & Jin, 2002).

The ambient conditions of the bank greatly contribute to service quality. Brady and Cronin (2001) found that consumers react not only to products, but also to the features that accompany the product. They asserted that consumers make their purchase decision and respond to more than simply the tangible product or service being offered but respond to the total product. One of the most significant features of the total product is the place where it is bought or delivered. Atmospherics relates to the effort to design buying environments to produce specific emotional effects in the buyer that enhance his purchase probability. In some cases, the place, more specifically the atmosphere of the place, is more influential than the product itself in the purchase decision. In some cases, the atmosphere is the primary product. They called this "atmospherics" or "the effort to design buying environments to produce specific emotional effects in the buyer which enhance his purchase probability."

Hirschman and Holbrook (1982) reached a similar conclusion on the importance of ambient conditions, finding that sensory input associated with a product led to emotional arousal and caused consumers to recall the product or the events surrounding their interaction with the product or to imagine a sequence of future events. In some cases, this sensory input was recalled more clearly than was the product itself and the emotions triggered were of greater importance than the utility of the product in customers' ultimate choice of products. Atmospheric clues affect consumer moods and emotions which, in turn, affect purchase behavior and response to products (Jiang and Wang, 2006).

The other tangibility aspect is the interior design of premises and facilities. The interior design of the premises and facilities influences customers' perception of service quality, customer satisfaction and loyalty. Studies on the influence of the physical interior design of the facility on service quality, customer satisfaction and patronage decisions are in support of this finding. Sherman et al., (1997) confirmed that the interior environments were important determinants of purchase behavior. Kalcheva and Weitz (2006) found that the interior environment of business settings had an impact on consumer purchasing behavior, particularly on re-patronage intentions or decisions.

Gardner (1985) also examined those aspects of the service environment under marketer control and found that the interior environment had the potential to influence consumers' mood states in both service encounters and point-of-purchase situations. Gardner noted that the interior design correlated with customers' moods and found "evidence to indicate that design-related factors can have powerful effects on human behavior. She concluded that the interior design environment ("settings") is an important aspect of consumers' mood states and their ultimate evaluations of and responses to their service encounters. Le Bel (2005) & Berry et al., (2006) explored the relation between emotion and perception of service quality with specific reference to the service facility and concluded that the interior environment can create mood or trigger feelings, which in turn affect behavior, customer satisfaction, and perceptions of service quality .

The interior environment can influence customer emotions especially in extended service transactions (Berry et al., 2006). Baker and Cameron (1996) identified three environmental components involved in waiting: ambient elements (non-visual sensory input), design elements (visual components), and social elements (the people in the service setting). The authors found that bright lighting, uncomfortable temperature, fast or loud music, oversaturated and warm colors, uncomfortable seating, and glare create negative emotions and cause customers to overestimate wait times. Conversely, lower lighting levels, temperatures within a comfort range, soft and slow music, light and cool colors, and comfortable seating created positive emotions and caused customers to underestimate wait times. They concluded that the interior environment can enhance the consumer experience in extended service interactions by creating positive emotions and reducing negative emotions.

The adequacy of personnel and facilities are also aspects of tangibility that influence service quality perceptions. They affect the time taken by the business to the deliver the service. Waiting time is a part of many service encounters and can influence service quality perceptions (Taylor 1994; Baker and Cameron 1996; Brady and Cronin 2001). Taylor (1994) and Le Bel (2005) found that in extended service transactions, where customers interact with service providers over long periods of time, emotions are of paramount importance and emotions generated at one stage in the service experience may influence customers' perceptions of later stages of the process (Dube and Menon 2000). When customers perceive waiting time as favorable, they perceive the service quality to be higher (Brady and Cronin 2001). When they perceive waiting time as too long or too short, their evaluation of service quality declines (Taylor 1994).

A study by Reimer and Kuehn (2005) supported this finding. They found that customers look for other indications of quality to form pre-purchase evaluations of the service. All elements of the interior environment, including the physical setting and ambient conditions, function as service clues that give customers an indication of the quality of the service to be received (Reimer and Kuehn 2005) and become important in determining customer loyalty

Assurance

The assurance construct consists of competence (possession of the required skills and knowledge to perform the service), courtesy (consideration for the customer's property, clean and neat appearance of public contact personnel), credibility and security of the employees and their ability to inspire trust and confidence. According to Sadek et al. (2010), in British banks assurance means the polite and friendly staff, provision of financial advice, interior comfort, eases of access to account information and knowledgeable and experienced management team**.** This includes employees having knowledge to answer questions, inspiring confidence, providing prompt service, willing to respond to customer’s requests, giving customers individual attention, showing consistent courtesy with customers and even treat customers properly on the phone. Several studies suggest that the exchange of information is an important part of both traditional selling and relationship marketing which may lead to a shared understanding (Ndubisi, 2006; Lymperopoulos et al., 2006). The higher customers appreciate personal interaction, the higher the overall evaluation of retail service quality is.

This dimension concerns how knowledgeable and courteous employees are to inspire confidence and trust from their customers .The assurance attributes are all very much about the extent to which a consumer trusts a provider and whether or not they have the confidence in an organization to provide a service securely and competently.

There is a substantial level of trust in the bank and its abilities were necessary to make the consumer comfortable enough to establish a banking relationship. Parasuraman, et al (1991) included actions by employees such as always courteous, behavior instills confidence, and knowledge as prime elements of assurance.

On the aspect of the feeling of safety when transacting with the bank, customers are concerned or interested in security issues regarding on-line, credit card, telebanking, internet etc transactions. Security and safety are ranked highly in measuring service quality and consequently customer loyalty. Customers have high expectations regarding feeling safe and secure whilst making transactions. This may be attributed to the nature of the services provided by banks. Customers face much greater risk in terms of fraud and identity theft in banking. This may explain the fact that banks do all they can to assure their customers that transactions with their organizations are safe and secure On whether employees always instill confidence in their bank customers, it is important to acknowledge the fact that customers want to trust and have confidence in the competence of the service provider’s employees to deliver the service. The customer will not be satisfied if he/she does not feel assured about the competence of the service provider. Kumar et al. (2010) and Lai (2004) found that confidence is one of the important factors for assurance. As confidence in one’s impressions about the firm increases (Verhoef et al., 2002), trust develops between the parties (Gwinner et al., 1998), and the cost of switching firm rises (Shapiro and Varian, 1999). Moreover, customers weigh prior cumulative satisfaction heavily when they are deciding whether to maintain or terminate their relationship with the bank (Bolton, 1998). These aspects favor the continuity of the relationship, so that we can expect a greater propensity to switch.

The courteous nature of the service provider's staff also influences the customer's assessment of service quality. The politeness of the employees is an important attribute for evaluating service quality because of the heavy interactional nature of the service. Often customer show demanding expectations for politeness of employees. The extensive contact and interactions between the customer and the employees makes it a key variable for service quality.

Responsiveness

Responsiveness is the determinant that defines the willingness to help customers and to provide prompt services. It is the desire and willingness to assist customers and deliver prompt service .It involves features such as the opening hours of the service provider, the politeness of the employees and the time the customer has to wait in order to get the service. In other words, it describes how quickly and affective the response to the customer is .Willingness to help customers is likely to have an important and positive effect on customer' perceived service quality and customer satisfaction in retail banking. Mengi (2009) also found that responsiveness is positively related to service quality and customer satisfaction.). It is also involves understanding needs and wants of the customers, convenient operating hours, individual attention given by the staff, attention to problems and customers‟ safety in their transaction (Kumar *et al.*, 2009).

Mohammed and Shirley (2009) found that bank services such as prompt communication to the customer are vital. Customers are concerned whether their bank will provide the right information to the right customers promptly .This is creates public confidence, and thus helps customers to make the right decisions at the right time. Responsiveness is likely to have an important and positive effect on customer satisfaction (Glaveli et al., 2006).The higher customers appreciate problem solving, the higher overall evaluation of retail service quality is.

Empathy

The last dimension of the SERVQUAL model is empathy. Empathy is the caring and personalized attention the organization provides its customers. It is reflected in the service provider's provision of access, communication and understanding the customer. Individual attention, convenient operating hours, understanding of the staff when a problem occurs and the knowledge the employees have of the customers' needs were the primary elements included in the evaluation of empathy. This dimension captures aspects of service quality that are directly influenced by service provider's policy such as good customer service, convenience of parking and operating hours (Butcher, 2001; Ndubisi, 2006; Ehigie, 2006). The degree to which the customer feels the empathy will cause the customer to either accept or reject the service encounter. The higher the level of empathy, the higher the overall evaluation of retail service quality is.

The aspects that are critical in empathy include employees' knowledge to respond to customer requests or needs. Bank invests heavily on staff training so as to equip them with the necessary knowledge and skills to deal with their customers. On the employees' personal attention to their customers, marketing literature indicates that service providers that provide individualized attention to their customers increase their level of perceived service quality. This is due to the high intangibility of the service and the heterogeneity of it results in an increased focus on the interaction process. This means that employees must be skilled enough to be able to immediately recognize the needs of the customers are critical in order to improve service quality

Service quality and customer loyalty relationship

According to Lai, Griffin & Babin (2009) loyalty is one of the main determinants of long term financial growth in an organization. Service quality is also linked with customer loyalty. While some researchers are in the view that customer, satisfaction rather than service quality exerts stronger influences on buying intentions of the customers (Cronin and Taylor, 1992). Some other researchers also provided the strong empirical evidences supporting the fact that service quality increases the customer intentions to remain with any company. For example, Buzzell and Gale (1987) found out that service quality results in increased market share and repeated sales that ultimately leads to customer loyalty. Zeithaml et al. (1996) also concluded in their research that when organizations improve the quality of their services, customers' unfavorable intentions are decreased while favorable behavioral intentions are increased. Traditional service systems are still demanded by the customers along with the internet-based banking (Yang and Fang, 2004).

Service quality might is been found to have a direct impact on customer loyalty (Boulding et al., 1993; Parasuraman et al., 1991) .Cronin and Taylor (1992) hypothesize that perceived service quality positively affects consumers' loyalty . Reichheld and Sasser (1990), Cronin et al. (2000) and Kang and James (2004) found that good service quality leads to the retention of existing customers and the attraction of new ones, reduced costs, an enhanced corporate image, positive word-of-mouth recommendation and, ultimately, enhanced profitability. A research by Zeithaml et al. (1996) concluded that when organizations enhance the quality of their services, customers' favorable behavioral intentions are increased while unfavorable intentions are decreased simultaneously.

Service quality has been found to have considerable impact in determining repeat purchase and customer loyalty (Jones and Farquhar, 2003). As pointed out by Bolton (1998), service quality influences a customer's subsequent behavior, intentions and preferences. When a customer chooses a provider that delivers service quality that meets or exceeds his or her expectations, he or she is more than likely choose the same provider again. Besides, Cronin and Taylor (1994) also found that service quality has a significant effect on repurchase intentions. Other studies which support that repurchase intentions are positively influenced by service quality include Zeithaml et al (1996), Cronin and Taylor (1994), Cronin et al ., (2000), and Choi et al. (2004). A positive perception of service quality is thus an antecedent to customer loyalty (Young et al , 1994).

It is well known that evaluative judgments of service quality could significantly influence service loyalty and bank loyalty (Veloutsou et al., 2004). Ruyter et al. (1998) also found a positive relationship between perceived service quality and preference loyalty and price indifference loyalty. Velotsou et al. (2004) also found that perceived service quality has a positive association with customer loyalty, being defined as a function of expected quality (generated from market communication, image, word of mouth and customer needs) and experienced quality (generated from functional and technical quality).

Perceived quality reflects the opinion of the customer regarding the superiority or global excellence of a product or service. According to Venetis & Ghauri (2004), service quality is regarded as one of the few means of services differentiation, attracting new customers and increasing market share. It is also viewed as an important means of customer retention. The lifetime value of a loyal customer can be astronomical, especially when referrals are added to the economics of customer retention and repeat purchases of related products (Heskett *et al*, 1994). In one case, a retail bank that increased its customer retention rates by 5 per cent increased its profits by 85 per cent (Reichheld & Sasser, 1990). The cost of gaining a new customer is about five times greater than the cost of retaining a current customer through the use of relationship marketing.

Problem statement

Perceived service quality is a measure of the degree to which the service delivered matches customer expectations (Lewis and Booms (1983). Delivering quality service means conforming to customer expectations on a consistent basis. The customer's perception of quality of service is based on the degree of concordance between expectations and experience. Firms need to offer superior service and to exceed customer expectations (Parasuraman, 1995) to delight the customers. Customers will remain loyal to a service organization if the value of what they receive is determined to be relatively greater than that expected from competitors (Zeithaml & Bitner, 1996). While service quality has proved to be an essential ingredient to convince customers to choose one service organization over another, many organizations have realized that maintaining excellence on a consistent basis is imperative if they are to gain customer loyalty.

Despite extensive research on the dimensions of perceived service quality in banking in developed economies using the SERVQUAL model developed by Parasuraman *et al.(* 1988), little has been done in developing countries and in particular in Kenya. The SERVQUAL instrument is a concise multiple-item scale with good reliability (Lewis & Mitchell, 1990) and has been widely accepted as a valid instrument (Carman, 1990) in the measurement of perceived service quality. It comprises of five service quality dimensions: reliability, tangibility, assurance, responsiveness and empathy. Most studies have been conducted in developed economies but not much has been done in the Kenyan context. This study therefore sought to investigate the effect of perceived service quality dimensions on customer loyalty in retail banking in Kenya using the SERVQUAL model

Research objectives

1. To establish the effect of tangibility on customer loyalty in retail banking.
2. To determine the relationship between reliability and customer loyalty in retail banking
3. To responsiveness has no significant effect on customer loyalty in retail banking
4. To determine establish effect of assurance on customer loyalty in retail banking
5. To determine the relationship between empathy and customer loyalty in retail banking

6. To determine the effect of tangibility, reliability , responsiveness , assurance and empathy on customer loyalty in retail banking

Research Hypotheses

The following hypotheses were tested:

HO1 There is no significant relationship between tangibility and customer loyalty in retail banking.

HO2 There is is no significant relationship between reliability and customer loyalty in retail banking

HO3 Responsiveness has no significant effect on customer loyalty in retail banking

HO4 There is no significant relationship between assurance and customer loyalty in retail banking

HO5 Empathy has no significant effect on customer relationship in retail banking

HO6 There is no single service quality dimension that has significant effect on customer loyalty in retail banking

MATERIALS AND METHODS

Research Design

A simple randomized *ex-post facto* design was used to investigate the relationship between service quality dimensions and customer loyalty (McMillan & Schumacher, 1989). *Ex post facto* design is a form of survey research where independent variables are selected rather than being manipulated and observations and analyses of relationships among the variables carried out in their natural settings. The method was preferred because it allows ascertaining wide spread opinions under natural conditions. The design also allows investigating possible relationships between variables. The design was chosen because other similar studies on customer service have successfully used in the past (Masinde, 1986, and Mwendwa, 1987). Cross - sectional data were collected.

Sample Size and Sampling Procedure

The commercial banks for this study were purposively selected to capture three categories of ownership: public/state owned banks, private domestic banks and foreign–owned banks. This categorization was to assist in investigating whether the type of bank influenced service quality, customer satisfaction, and customer value and customer loyalty. Drawing a sample from across these categories of commercial banks ensured adequate representativeness of the various characteristics

Stratified random sampling was used to obtain the sample size. The sampling technique was selected because it ensures that all the groups (categories of banks) were adequately sampled and this facilitated comparison among the groups. The population was stratified according to ownership (public sector, private sector and foreign), market share and period of operation within the Municipality.

A sub-sample size was determined for each stratum. The total sample size for the study was obtained using the following formula:

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

Where:
S = Sample size required
N = Number of people in the population
P = preliminary estimate of percentage of people in the population who possess attributes of interest. The conservative estimate and one that is often used is 50%. (0.5 will be used in this formula)
A= Accuracy (or precision) desired, expressed as a decimal (.05 for 5% is used in this formula**)**
Z = The number of standard deviations of the sampling distribution (Z units) that corresponds to the desired confidence level , 1.96 for 95% confidence level , 1.6449 for 90% confidence level and 2.5758 for 99%.

The total sample size of 381 respondents was determined. The sub-sample size for each bank was determined using the formula by Krejcie and Morgan (1970) given as:

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

Where: s = Sub-sample size for each bank
p = Sub population of customers in each bank
S = Total sample size for the study
P = Total population for all the banks

The formula was also preferred for its acceptable level of accuracy in generating a representative sample size at 0.05 level of confidence.

After the population was stratified and the sample size for each stratum determined, individual respondents were selected through systematic sampling. This was achieved by picking the ***kth*** customer from each stratum coming to the bank, which is an acceptable method according to Zikmund (2003). This technique was preferred because it ensured representative coverage of all elements being considered in the study. The data collection period covered one month to ensure inclusiveness of customers who come to the bank on different dates of the month.

Instrumentation

Data were collected using a questionnaire. It was chosen because it was easy to administer in the on-the-spot- collection of information approach used in this study. The technique also facilitated confidentiality of customers' personal information because they did not have to disclose their identity when filling out the questionnaire. The questionnaires were administered in January 2011 during working hours from 9a.m to 3 p.m., Monday through Friday. This is the period when the banks have peak traffic and hence it was easier to get customers to respond to the questionnaires. It is also the time when banks experience long queues and the respondents are likely to give more "true" and "rational" assessment of the quality of service received, level satisfaction and value for their money.

The total number of items that measured the criterion (dependent) variable were 64 and were operationalized using a five – point likert scale, ranging from (1= strongly disagree) to (5 = strongly agree). The scale was useful in measuring the strength of the respondents' responses on these items. The items were constructed based on the literature on service quality, satisfaction, perceived value, customer social capital and loyalty.

Customer loyalty (dependent variable) items were selected based on observable behavior characteristics that included repurchase, referrals, citizenship behavior, co-production, willingness to pay premium price, less switching behavior, mentoring other customers and advocacy or word of mouth. The selection of these items ensured completeness in covering all the key aspects of loyalty outcome behaviors.

Validity and Reliability of the study

The study attempted to ensure that the findings were both valid and reliable. Validity is the extent to which the test-items measure what they purport to do. The instrument's content validity was assessed using expert judgment by four faculty academic staff experts in the Department of Business Administration, in Egerton University.

Reliability refers to the consistence of a score from one occasion to the next. The relevance of the content used in the questionnaire in relation to the objectives of the study was assessed using a cross-bridge matrix where by the items in the questionnaire were checked against the objectives of the study to ensure adequate content coverage (Bosire, 2000). Through the expert judgment, construct validity was assessed to establish the extent to which the instruments measured special respondent attributes like perceptions, attitudes and opinions towards the effect of service quality, customer satisfaction and customer value on customer loyalty.

Cronbach's coefficient alpha was used to test reliability or to assess the quality of the measurement (Churchill, 1979). An acceptance level of .70 of Cronbach's alpha tested for internal consistency for each of the constructs as recommended by McMillan (1992). The internal reliability test results were for service quality (0.918) which was high enough to ensure the internal consistency as this was higher than the recommended 0.7 threshold (Hair et al., 2006).

Data Collection Methods

Data was collected using questionnaires that were administered by research assistants outside the entrance to the banks. The research assistants waited for the respondents to fill out the questionnaires. Before proceeding to the field, letters of introduction was obtained from The Open University of Tanzania and the Egerton University were obtained .The participants were assured that any data collected was to be kept confidential and was to be used strictly for academic purposes only.

Operationalization of the Study Variables
The five constructs identified in this research that included perceived service quality, reliability, tangibility, assurance, responsiveness and empathy were measured as indicated below:

The independent variables were the dimensions of perceived service quality, namely, reliability, tangibility, assurance, responsiveness and empathy. Service quality was the perceived overall service excellence of a commercial bank and was measured in terms of five service quality determinants adopted from Berry et al (1994).They were reliability, responsiveness, assurance, tangibility and empathy. Thus, the service quality measurement adopted the SERVQUAL model developed by Parasuraman *et al.,* (1988).

The dependent variable was customer loyalty and was measured in terms of outcome behaviors. The outcome behaviors of loyal customer considered in this study were repurchase, advocacy (word-of-mouth), less switching behavior, citizenship behavior, mentoring other customers , willingness to pay more and business referrals. The individual measures were ordinal but were weighted to yield the total loyalty score or index, which represented a measure of loyalty on an interval scale.

DATA ANALYSIS

The study used both descriptive and inferential analyses. Descriptive analysis involved the computation of frequency distribution, mean, and standard deviation, which were useful to identify differences among groups. Inferential analysis **a**ssisted in understanding relationships between the study variables. In order to meet the research objectives of this study, all valid responses were assessed using a variety of statistical techniques: Pearson’s Correlation, analysis of variance and regression analysis.

Pearson’s Correlation analysis was used to establish the degree of relationships between variables. Pearson Correlation was preferred because it assesses the strength of linear relationship between two variables used to test for the relationship between two variables.

Multiple regression analysis was used to determine the contribution of each of the independent variables to dependent variable. Regression analysis describes the way in which a dependent variable is affected by a change in the value of one or more independent variable. This technique was preferred because it tests the relative contribution of the independent variables on customer loyalty was achieved through multiple regression. Regression helps to predict the value of a dependent variable using one or more independent variables (Kometa (2007) and is used for the investigation of relationships between variables (Sykes (1993). This analysis was also useful in quantifying the influence of various simultaneous effects on a single dependent variable (Sykes, 1993).

In order to test the strength of the relationship between the dependent and independent variables, regression coefficients were used to evaluate the strength of the relationship between the independent variables and the dependent variable. Chu (2002) claims that the beta coefficients of the independent variables can be used to determine its derived importance to the dependent variable compared with other independent variables in the same model. Chu (2002) indicates that the beta coefficients of the independent variables can be used to determine their derived importance to the dependent variable compared with other independent variables in the same model. In general, the relationship of the independent variable with the dependent variable will be positive if the beta coefficient is positive. In contrast, if the beta coefficient is negative, the relationship between the independent and dependent variables will become negative. Of course, the beta coefficient equaling zero implies that there is no relationship between both of the independent and dependent variables.

R2 was the multiple correlation, which represented the percent of variance in the dependent variable (customer loyalty) explained collectively by all of the independent variables (Garson, 2008). Thus the R^2 value in the model provided a measure of the predictive ability of the model. The close the value to 1, the better the regression equation fit the data. The following study multiple linear regression model was tested:

$SQ = \beta o + \beta 1RE + \beta 2AS + \beta 3RS + \beta 4TA + \beta 5EM + e$

Where: βo = Intercept or constant

33, β4 & β5= Regression coefficients or slope of the regression line of the independent variables 1 to 5. They indicate the relationship between the independent variables and the dependent variable

= Reliability
= Assurance
= Responsiveness
= Tangibility
= Empathy
= Error or random term.

In regression analysis, the decision rule is: Reject null hypothesis if F calculated > F critical at $\alpha = 0.05$ (5% level of significance). However, if F calculated < F critical, we do not reject the null hypothesis. Another way of drawing conclusion on the significance of the regression is that if the p-value (probability) calculated by the regression is less than our significance level (0.05) then it means the probability of drawing another sample from the population that gives similar results and satisfies the null hypothesis is so low that we reject the null hypothesis . A p-value is a probability that provides a measure of the evidence against the null hypothesis provided by the sample. Smaller p-values indicate more evidence against the hypothesis (Anderson et al., 2009). Hence if p- value of the regression (population) < 0.05, we reject the null hypothesis but if p-value> 0.05, then do not reject the null hypothesis.

The Effect of Service Quality dimensions on Customer Loyalty

Service quality was hypothesized to affect customer loyalty in commercial banking. An index for each of the service quality dimension was calculated to represent all the items that were used to measure this construct. The customer loyalty index and the service quality dimension indices were used to test the relationship between them. Correlation analysis was used to test the relationship between service quality dimensions and customer loyalty.

HO1 ***There is no significant relationship between tangibility and customer loyalty in retail banking.***

The result of Pearson correlation analysis provided in table 1.1 shows that reliability is significantly, positively correlated to loyalty. The result shows a coefficient of .805** at p =0.01 (r =. 805**, p< 0.01) which shows that the two constructs, service quality and customer loyalty are positively related. The coefficient of determination (r^2) shows that there is a significant positive relationship of 19.8%. Therefore, the hypothesis should be rejected.

The hypotheses test of this study confirms that tangibility and customer loyalty are positively correlated with each other. The possible explanation of this finding is that the bank customers often look to any tangible indications which may be used as indicators of the service quality. The customers can assess the premises of the banks; or perhaps the appearance of the bank's staff. Lai (2004) also pointed out that tangibility is positively related to customer loyalty.

HO2 ***there is no significant relationship between reliability and customer loyalty in retail banking.*** .

The result of Pearson correlation analysis provided in table 1.1 shows that reliability is significantly, positively correlated to loyalty. The result shows a coefficient of .865** at p =0.01 (r =. 865**, p< 0.01) which shows that the two constructs, service quality and customer loyalty are positively related. The coefficient of determination (r^2) shows that there is a significant positive relationship of 86.5% Therefore, the hypothesis should be rejected.

According to this study, there is a positive relationship between reliability and customer loyalty in the retail banking sector in Kenya . The result shows that customers are satisfied with the services provided by the bank as promised and handling (speed) of solving the problem. Customers are confident that banks will fulfill the promised terms and conditions which will not go against their (customers) interests. Reliability is considered one of the important factors of service quality dimension that contributes to customer loyalty.

HO3 ***Responsiveness has no significant effect on customer loyalty in retail banking***

The result of Pearson correlation analysis provided in table 1 shows that reliability is significantly, positively correlated to loyalty. The result shows a coefficient of . 863** at p =0.01 (r =. 863**, p< 0.01) which shows that the two constructs, service quality and customer loyalty are positively related. The coefficient of determination (r^2) shows that there is a significant positive relationship of 86.3% . Therefore, the hypothesis should be rejected.

This study shows that responsiveness and customer loyalty are positively correlated. The bank customers in Kenya prefer a friendly bank, which is willing to help in their banking operations. Willingness to help customers is likely to have an important and positive effect on customer loyalty in the retail banking sector in Kenya. Mengi (2009) also found that responsiveness is positively related to customer loyalty

HO4 ***There is no significant relationship between assurance and customer loyalty in retail banking***

The result of Pearson correlation analysis provided in table 1 shows that reliability is significantly, positively correlated to loyalty. The result shows a coefficient of .745** at p =0.01 (r =. 745**, p< 0.01) which shows that the two constructs, service quality and customer loyalty are positively related. The coefficient of determination (r^2) shows that there is a significant positive relationship of 74.5%. Therefore, the hypothesis should be rejected.

Assurance shows a positive correlation with customer loyalty in the current study. The possible explanation of this finding is that the bank can instill feelings of confidence in its customers and the banks handle their customers in a professional and competent way. The findings concur with those of Kumar *et al*. (2010), and Lai (2004) who found that assurance is one of the important factors for customer loyalty.

Table 1. Correlations for Service Quality Dimensions and Customer Loyalty

		TANGIBILITY	ASSURANCE	EMPATHY	RELIABILITY	RESPONSIVENESS	CUSTOMER LOYALTY
TANGIBILITY	Pearson Correlation	1	.472**	.511**	.563**	.555**	.805**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	384	384	384	384	384	384
ASSURANCE	Pearson Correlation	.472**	1	.561**	.566**	.613**	.747**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	384	384	384	384	384	384
EMPATHY	Pearson Correlation	.511**	.561**	1	.476**	.539**	.707**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	384	384	384	384	384	384
RELIABILTY	Pearson Correlation	.563**	.566**	.476**	1	.720**	.865**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	384	384	384	384	384	384
RESPONSIVENESS	Pearson Correlation	.555**	.613**	.539**	.720**	1	.863**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	384	384	384	384	384	384
CUSTOMER LOYALTY	Pearson Correlation	.805**	.747**	.707**	.865**	.863**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	384	384	384	384	384	384

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

Table 2 a). Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.454[a]	.206	.195	3.40806

Predictors: (Constant), RESINDEX, EMPAINDEX, TANGINDEX, ASSUINDEX, RELIANDEX

Table 2b). ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1139.063	5	227.813	19.614	.000[a]
	Residual	4390.429	378	11.615		
	Total	5529.491	383			

a. Predictors: (Constant), RESINDEX, EMPAINDEX, TANGINDEX, ASSUINDEX, RELIANDEX

b. Dependent Variable: LOYINDEX

Table 2 c). Correlation coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	19.671	1.273		15.450	.000
	TANGINDEX	.074	.056	.079	1.324	.186
	ASSUINDEX	.171	.116	.093	1.481	.139
	EMPAINDEX	.191	.115	.100	1.663	.097
	RELINDEX	.230	.063	.257	3.668	.000
	RESINDEX	.023	.080	.021	.292	.770

a. Dependent Variable: LOYINDEX

HO5 Empathy has no significant effect on customer relationship in retail banking

The result of Pearson correlation analysis provided in table 1 shows that reliability is significantly, positively correlated to loyalty. The result shows a coefficient of .707** at p =0.01 (r =. 707**, p< 0.01) which shows that the two constructs, service quality and customer loyalty are positively related. The coefficient of determination (r^2) shows that there is a significant positive relationship of 70.7% Therefore, the hypothesis should be rejected

The results of the hypothesis test show that the bank customers in Kenya want a high degree of interaction with the bank staff and they also expect personalized service from the bank staff. The bank customers are also looking for front line staff that is capable of understanding their specific needs. The current study confirms that empathy has a large positive correlation with customer satisfaction. The findings concur with the study by Ladhari (2009) which found that empathy is a very strongest predictor of customer customer loyalty.

HO6 There is no single service quality dimension that has significant effect on customer loyalty in retail banking

A further analysis of the relative importance of the service quality dimensions was carried out using a regression model. The results revealed that R2 was .206 or 20.6 % which was significant at 0.001 level .This implied that these dimensions which measured service quality accounted for about 20.6 % of the variation in customer loyalty in this model. This study empirically established that customer loyalty to bank will be strongly influenced by service quality. It can be observed from table 2c that using beta values to measure the variation in customer loyalty indicated that reliability ((β =.257) contributed to the highest variability followed by empathy ((β = .100), assurance ((β =.093), tangibility (β=.079) and responsiveness ((β= .021) respectively.

The result implies that customer is concerned with the bank personnel's ability to deliver the service in a dependable and accurate manner. The that were captured in the research instrument included bank honours its promises all the time, bank always performs services right the first time, bank insists on error free documentation, bank offers quality products and services always, bank employees always keep their promises and bank's contracts have clear terms. Thus reliability is used in the evaluation of service and normally is the most important attribute consumers seek in the area of quality service Parasuraman, et al (1991) .

MANAGERIAL IMPLICATION OF STUDY

The study has among other things, looked at how the different dimensions of service quality are related with customer loyalty. By taking this disaggregated approach focusing on how all five dimensions rather than just looking at how overall service quality influences customer loyalty , the study has shown that not all five antecedents of service quality *(tangibility, reliability, responsiveness, assurance* and *empathy*) equally contribute to customer loyalty in retail banking customers in Kenya . This should provides a more useful and practical information for managers in improving service quality that will eventually lead to customer loyalty (Wang et al., 2004).

The current study has shown the interrelationships among service quality dimensions and customer loyalty in the retail banking sector in Kenya. This study confirms the positive relationship between all the service quality attributes and customer loyalty. Moreover, because all the dimensions of service quality attributes are positively correlated with customer loyalty, bank managers should emphasize all the service quality dimensions in maintaining and improving the service quality that they provide.

This study highlights that reliability and empathy are the most important dimensions of service quality in retail banking in Kenya. Bank managers need to put a lot of emphasis on the attributes of reliability and empathy in to create service quality which will eventually result in loyalty. The implication here is that there is the need for management to take a look at strategies that emphasise service delivery as it relates to relationship issues since the study shows that customers whose banks focus on high reliability and e*mpathy* have stronger loyalty intentions of than banks that do not

The study further shows that customers who perceive their bank staffs to be empathetic (caring and giving individualised attention) tend to be more loyal than those who perceive their banks to be investing more in tangibles. Put another way, providing customers with care and individualised attention is more important than providing a conducive business environment to the customer. The core concept of empathy is employee-customer interactions. Therefore, bank managers would be well advised to focus on the employee training programmes so that they can offer personalized service. The main aim should be to develop a long-term relationship with the customers. Hence in order to retain customers, there is the need to focus on the most important drivers of service quality and loyalty revealed thus far.

The study established that there is a direct relationship between delivery of service quality and customer loyalty. This study should help bank managers to decide upon those service quality aspects that need improvement. Bank management should pay attention to all service quality dimensions of assurance, reliability, responsiveness, convenience and empathy. In this respect, for instance, efforts should be made to simplify banking procedures and to open all counters in a unit when necessary. Thus, the waiting time decreases which will positively affect customers' satisfaction. Fulfilling customers' requirements is the key to a competitive advantage and long term success in a highly competitive environment.

Service quality is one of the critical success factors that influence the competitiveness of an organization. A bank can differentiate itself from competitors by providing high quality service. The findings of the study showed that service quality dimensions can be used by banks to attract and maintain their customers. To survive in the competitive banking industry, banks have to develop new strategies which will satisfy their customers. Since it is impossible to have product differentiation in a competitive environment like the banking industry (Ioanna, 2002) as all banks are delivering the same products, bank management should try to differentiate their firm from competitors through service quality. Service quality is an imperative factor impacting customers' satisfaction level in the banking industry. Today's customers have more choices for their financial needs than ever before (Harwood, 2002).

Commercial bank managers need to invest in employee training programs that will provide employees with an understanding of service culture and service excellence. Employee training programs should pay particular attention to "interpersonal communication" and "customer care" factors, in order to be able to meet the customers' need for "personalized service". Employees using a professional approach to interactions with customers will be able to provide the service in an emphatic manner, promptly recover service failures and ensure that the service delivered is consistent with the service promised. Bank staff should be encouraged to take part in figuring out an effective loyalty strategy. Only when a service culture is created, can the commercial banks management ensure the efficient delivery of services most desired by customers. This will result in high customer satisfaction, retention and loyalty (Reichheld, 1996; Caruana, 2002) within the Kenya Commercial Banking industry.

Commercial bank management has to make sure that things are done right the first time and to ensure that the promises made to customers are kept in terms of service delivery. Commercial banks need to emphasize service quality by introducing standards for service excellence. The study has shown that customers are looking for banks that keep their promises, provide prompt service and have employees that are competent and always willing to help the customer.

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