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Influence of Service Quality Differentiation Strategy on Customer Loyalty in Commercial Banks within Nakuru Municipality

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Abstract

The purpose of this study was to determine the influence of service quality differentiation strategy on customer loyalty in commercial banks within Nakuru Municipality. The study adopted a descriptive survey design and employed purposive sampling technique in the identification of the banks and systematic random sampling in the selection of the respondents. The study sample was drawn from customers of banks that had operated in Nakuru Municipality for more than five years. A representative sample of 384 bank customers was chosen and the process of data collection was conducted over a period of one month. The study used a questionnaire for data collection. Data collected was analyzed for descriptive statistics and inferential statistics (correlation and regression) using Statistical Package for Social Sciences (SPSS) computer software version 15. Research findings were presented in the form of tabular summaries. The significance level used for the study was 0.05. The results revealed that most bank customers agreed that banks used the service quality differentiation strategy dimensions and they also agreed with the aspects of customer loyalty as being present among most customers. Results also revealed that service environment was not significantly related to customer loyalty while interaction quality, empathy and reliability were significantly negatively correlated with customer loyalty. The study recommended that bank managers should change the application of the service quality differentiation dimension and they should also differentiate on aspects that increase customer loyalty. The study recommended that similar studies should be carried out in other parts of the country and in different sectors of the economy; and that factors that affect customer loyalty that are not discussed in the study should be researched on.

Keywords: *Service quality, differentiation strategy, customer loyalty, commercial banks, Nakuru Municipality*.

1.0 Introduction

In service industries globally, service quality remains critical as businesses strive to maintain a competitive advantage in the marketplace. Businesses in the service industry need to focus on service quality differentiation dimensions for their survival, and growth amidst a dynamic and competitive business environment. This situation is aggravated by forces such as globalization and its associated technologies, thus service oriented businesses, including banks have to use sustainable competitive strategies such as service quality differentiation strategy. Currently, technological changes are causing banks to rethink their strategies for services offered to customers (Bloemer, Ruyter & Peeters, 1998). Banks compete in the marketplace with generally undifferentiated products, and service quality becomes a primary competitive weapon (Stafford, 1996). Structural changes have resulted in banks being allowed a greater range of activities, enabling them to become more competitive against non-bank financial institutions (Angur, Nataraajan & Jaherea, 1999).

The period between 1980-1985 was a period marked by the deregulation of the service industries in Europe and North America and many service firms began facing fierce competition coupled with high customer expectations .This high service quality became vital for the survival of these firms .Customer satisfaction was a very prominent topic and models such as the GAP model was developed to help measure service quality so as to enable service providers attain customer satisfaction. However, today customers demand greater service quality and banking services, which are vital to the economic sustainability. In recent times, the business environment has changed and become more receptive to service quality because services have become more important to companies and many countries now have the service sector as the highest employer and contributor to the Gross Domestic Product (GDP). Between 1990 and 1992, 20 books and more than 150 scholarly papers and journal articles were published on the general topic of services marketing with a number of them in top marketing journals (Brown, Churchill & Peter, 1993). This increase in the awareness of service quality and increase in competition have pushed companies to strive to increase quality to meet customers' expectations.

Drucker (1991) defines service quality as "what the customer gets out and is willing to pay for" rather than "what the supplier (of the service) puts in". Hence, service quality is often "conceptualized as the comparison of service expectations with actual performance perceptions" (Kara, Lonial, Tarim & Zaim, 2005). Businesses seeking to foster customer loyalty are, thus, advised to monitor and make improvements to service quality on an ongoing basis (Gerrard & Cunningham, 2005). According to Karatepe, Osman, Yavas & Babakus (2005), the dimensions of service quality are service environment, interaction quality, empathy and reliability. Empirical evidence shows that these dimensions are largely used in the service industry for the purpose of fostering customer loyalty. Service environment encompasses physical appearance of bank facilities (interior and exterior), spaciousness of banking hall , and dressing of the bank; whereas interactive quality includes aspects of employees' warmth, courtesy, pleasantness, politeness and meeting customers' requests quickly; while empathy includes customizing of services, individualized attention and problem solving; and lastly reliability is the ability to perform the promised service dependably and accurately (Magesh, 2010).

1.2 Statement of the Problem

There is evidence that supports the proposition that service quality is an important determinant of customer loyalty in the service industry. In other words, the banking industry is largely a service industry, where service quality has great influence on customer loyalty (Ennew & Binks, 1996; Beerli, Martin & Quintana, 2004; and Lam & Burton, 2006).The economic growth that is being experienced in Kenya and specifically in Nakuru has led to an increase in economic activities. These economic activities require banking services thus Nakuru Municipality has been experiencing an increase in the number of commercial banks, which has resulted in stiff competition amongst the banks, consequently prompting the usage of service quality differentiation strategy. Despite the use of service quality dimensions (service environment, interaction quality, empathy, and reliability), customer loyalty is still a challenge, since there is a strong mobility of customers shifting from one bank to another (Hull, 2002). It is therefore, not known how each dimension of service quality differentiation strategy influences customer loyalty in banks in Nakuru Municipality. This study therefore seeks to determine the influence of service quality differentiation strategy on customer loyalty.

1.3 Specific Objectives

i. To determine the influence of service environment on customer loyalty in commercial banks within Nakuru Municipality.
ii. To establish the influence of interaction quality on customer loyalty in commercial banks within Nakuru Municipality.
iii. To establish the influence of empathy on customer loyalty in commercial banks within Nakuru Municipality.
iv. To determine the influence of reliability on customer loyalty in commercial banks within Nakuru Municipality.
v. To determine the composite influence of service environment, interaction quality, empathy and reliability on customer loyalty in commercial banks within Nakuru Municipality.

2.0 Literature Review

2.1 The Concept of Competitive Advantage

One of the main objectives of every firm is to achieve and maintain competitive advantage (Richard, 1985). Most companies want to attain their own business competitive advantage, which is considered as the heart of a firm’s performance in competitive markets. Since the terminology “competitive advantage” appeared in Porter’s book, the term has been distributed throughout marketing, management, economic and human resource publications (Flint, 2000). Barney (1991) gave an explicit definition of competitive advantage. It stated that 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. A firm is said to have a sustained competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy.

Due to the complexity of competitive advantage, and the social as well as economic impacts from its related activities, different scholars and institution in the world have done researches, amendments or re-definitions on “competitive advantage”. Porter (1980) defined competitive advantage as the ability gained through attributes and resources to perform at a higher level than others in the same industry or market. Clulow, Gerstman and Barry (2003) contributes that 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 player. Mitch (2008) states clearly that any business with a competitive advantage is able to attract more customers than its competitors by having some special factor that no one else possesses. Competitive advantage refers to a set of factors or capabilities that allows firms to consistently outperform their rivals (Roberts, 2002).

2.2 Service Quality

To understand the importance of service quality, it is important to understand what a service means. Lusch and Vargo (2004) define services as the application of specialized competences (knowledge and skills) through deeds, processes and performances for the benefit of another entity or the entity itself. Based on this definition, services are viewed as an activity, intangible in nature, which contributes value to consumers. It is highly customer -focused because it is only activated when a customer demands and uses it. This, therefore, makes services to be delicate and sensitive both from the customer and service provider perspective because services are consumed at the very instance of production, thus making mistakes encountered during the service process to be felt immediately by the customer and diminish the value of the service from the perspective of the customer. If mistakes are not made when delivering the service, value is created and this greatly contributes to the customer's satisfaction and it is felt on the spot by the customer whereas with tangibles where customers buy and consume later, failures in the product are not felt on the spot and can therefore be corrected before the customer consumes the product. This is however not possible with services. Based on this major difference, services are viewed as a framework for value creation because it provides a platform on which value can be created.

To understand what Service Quality is, we also need to understand what quality is and it's concept as a whole. Understanding the term "Quality" will reveal that the concept has been defined in many different ways and with different emphasis by the various quality gurus and writers on the subject. Quality is an elusive and indistinct construct. Crosby (1979) defines quality as "conformance to requirement". Requirements must be clearly stated so that they cannot be misunderstood. However, understanding of quality in goods and its significance is not sufficient to understand service quality. According to Bruhn and Georgi (2006) services are processes and have the following characteristics: Services are co-produced by the customer, intangible, perishable, cannot be transported, produced and consumed simultaneously and are heterogeneous (can be very different for each customer).

Parasuraman, Zeithaml and Berry (1985) suggest three attributes of service quality: Service quality is more difficult for the consumer to evaluate than goods quality; Service quality perceptions result from a comparison of consumer expectations with actual service performance and quality evaluations are not made solely on the outcome of a service; they also involve evaluations of the process of service delivery. Service quality is often conceptualized as the comparison of service expectations with actual performance perceptions (Zeithaml, Parasuraman & Berry, 1990). Therefore, service quality has been found to have a profound input on customer satisfaction and loyalty as a whole and is defined as the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed. Service companies are beginning to understand what their manufacturing counterparts learned in the 1980s, that quality does not improve unless you measure customer satisfaction (Reichheld & Sasser, 1990).

2.3 Customer Satisfaction

Oliver (1980) identified satisfaction and dissatisfaction in terms of the disconfirmation of consumers' expectations. A positive disconfirmation leads to customer satisfaction and a negative disconfirmation leads to customer dissatisfaction. Satisfaction is the consumer's fulfillment response. Bearden & Teel (1983) argue that customer satisfaction is important because it is generally assumed to be a significant determinant of repeat sales, positive word of mouth and consumer loyalty. Anderson, Fornell & Lehmann *(*1994) point out that customer loyalty is determined to a large extent by customer satisfaction. Boulding, Kalra, Staelin and Zeithaml (1993) found a positive relationship between service quality and repurchase intentions and willingness to recommend which in this study are measures of customer loyalty. Satisfaction is the state felt by a person who has experienced a performance or outcome that has fulfilled his or her expectations. Satisfaction is thus a function of relative levels of expectation and perceived performance.

Customer satisfaction can be defined as when the customer's expectation of the service provided matches his perception of the actual service received (Parasuraman *et al.*, 1985). Customers judge the services provided or the product delivered by making a very subjective value judgment which many times do not reflect reality. The current stiff competition and sophisticated marketing environment has urged service organizations to shift focus from profitability to customer satisfaction and customer loyalty. Better service quality will assure customer loyalty. Based on Coyne (1989), there are two critical thresholds affecting the link between satisfaction and loyalty. On the high side, when satisfaction reaches a certain level, loyalty increases dramatically; at the same time, when satisfaction declined to a certain point, loyalty dropped equally dramatically. Service quality stems from the application of the four dimensions discussed above; the service environment, interaction quality, empathy and reliability. The quality of service directly determines the level of customer satisfaction. A dissatisfied customer is one who experiences poor service and a satisfied customer is one who experiences good service. If a bank is to capture the loyalty of a customer then first the customer must experience superior service. Quality service then results in customer satisfaction which is an antecedent to customer loyalty. However customer satisfaction does not necessarily imply customer loyalty but loyalty must be preceded by satisfaction.

2.4 Customer Loyalty

The notion of the loyalty construct has developed over the years (Caruana, 2002). Research into customer loyalty has focused primarily on product-related or brand loyalty, whereas loyalty to service organizations has remained underexposed (Bloemer *et al.*, 1998). The concept of brand (customer) loyalty also extends to service organizations that typically provide somewhat more intangible products. Service loyalty can be defined 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 only this provider when a need for this service arises (Caruana, 2002).

Service loyalty is perhaps one of the most important constructs in services marketing. Indeed, loyal customers that indulge in repeat purchases are the foundation of any business. In an era of competitive pressure many firms are focusing their efforts on maintaining a loyal customer base (Caruana, 2002). Due to strong competition, the financial services sector has faced radical changes and several strategies have been attempted to create customer loyalty. To increase customer loyalty, many banks have introduced innovative products and services but the notable thing is that others easily follow those innovations and customers perceive very little difference in the services offered by retail banks. It has also been argued that a more feasible approach for banks is to focus on less tangible and less easy-to-imitate factors of customer loyalty such as service quality and satisfaction (Bloemer *et al.*, 1998).

For any firm to compete effectively and thrive in the current environment that is very dynamic, it has to ensure that customers are satisfied with the service quality, therefore promoting customer loyalty through repeat purchase. This can only be accomplished by ensuring that it establishes a relationship with its customers. No business, unless it is a state monopoly, can stay in business if the customers are not satisfied with service quality. Moreover due to the fact that customers' expectations are constantly increasing, corporations are now required to go beyond their primary need of satisfying the customer, to exceed their expectations and hence delight them (Kandampully, 1998). Firms therefore, have to shift their customer focus from purely satisfying customers to creating loyalty. Customer loyalty is a concept gaining more and more attention in today's business when loyal customers are considered as essential components to organizational success. Loyal customers tend to purchase more often, spend more money and usually enhance a positive word-of-mouth.

Loyalty has been defined as the state of "being faithful" or "steadfast in allegiance" to another party (Oliver, 1997).In a business context however, loyalty has been described as a customer's commitment to do business with a particular organization, purchasing their goods and services repeatedly, and recommending the services and products to friends and associates (Mcllroy & Barnett, 2000). Shoemaker and Lewis (1999) suggest that loyalty occurs when the customer feels so strongly that you can best meet his or her relevant needs better than the competitor and the customer buys almost exclusively from you. Oliver (1997) confined this definition of customer loyalty to a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior.

Managers need to realize that all relationships are based on customer satisfaction, which is hard to win but easy to destroy. It is earned and it is cultivated over a long period of time. The link between customer loyalty and profitability has become increasingly recognized in marketing strategy, and the increasing interest in customer loyalty program is a result of the recognition that generating more business from existing customers usually are cheaper and more effective than just trying to attract new ones.

2.5 Relationship between Service Quality and Customer Loyalty

In general, service quality is seen as a critical factor for a firm's success. There is a relationship between service quality and repurchase intention, recommendation, and resistance to better alternatives. All these – repurchase intention, recommendation and resistance to better alternatives – are behavioral intentions and constitute customer loyalty. The relationship between overall service quality and individual service loyalty dimensions has also been examined empirically by Boulding *et al.* (1993) and Cronin & Taylor (1992). Cronin and Taylor (1992) focused solely on repurchase intentions, whereas Boulding *et al.* (1993) focused on both repurchase intentions and willingness to recommend. In the study by Cronin and Taylor (1992) service quality did not appear to have a significant (positive) effect

on intentions to purchase again, while Boulding *et al.* (1993) found positive relationships between service quality and repurchase intentions and willingness to recommend. Loyalty under varying pricing conditions, this is willingness to pay a premium price and to remain loyal even when prices go up, has not received much attention in the service quality literature. Only Zeithaml *et al.* (1990) reported a positive relationship between service quality and the two aforementioned loyalty dimensions.
The relationship between service quality (SQ) and customer loyalty is a positive one, and one that is critical for the survival of a firm. There is an effect of SQ on the bottom line performance of a firm through enhanced customer loyalty in that the perceived service exceeds the service level desired by customers (Caruana, 2002).There is strong evidence that supports the proposition that service quality perceptions are an important determinant of customer loyalty (Beerli *et al*., 2004 ; Lam & Burton, 2006). These studies argue that the provision of superior bank service influences a customer's choice of bank. In short, a bank that offers superior service in comparison to its competitors provides customers with an incentive to select and maintain an ongoing relationship with that bank; correspondingly, a bank that offers inferior service is unlikely to attract or retain customers (Ennew & Binks, 1996). The provision of superior bank service necessitates that banks understand the needs of their customers.

2.6 Conceptual Framework

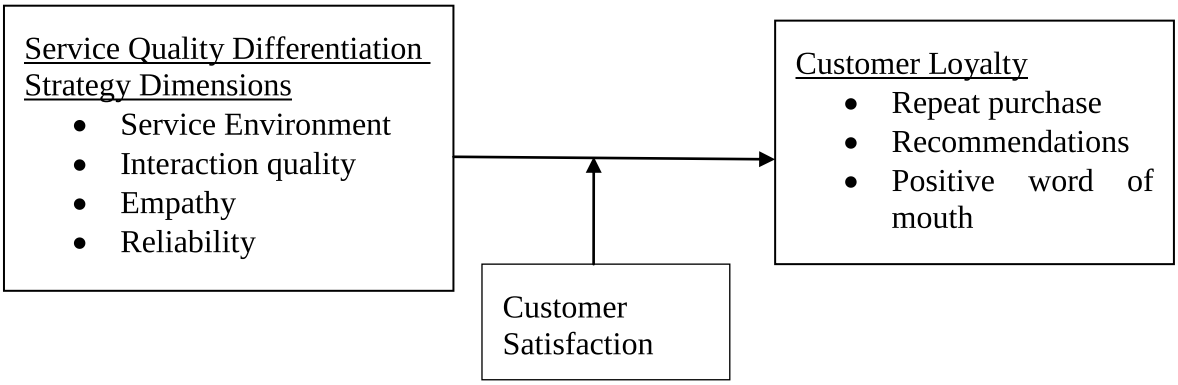

Figure 1: Conceptual Framework

3.0 Research Methodology

The study adopted the descriptive survey design. The study was conducted within Nakuru Municipality and targeted customers of banks within the study area. The study targeted commercial banks that had operated in Nakuru Municipality for a period of more than 5 years. The sample size for this study was 384 using a target population of 238560. A questionnaire was used to collect data from primary source who were the bank customers. The study performed content and construct validity of the research instrument, whereby the views of a strategic management expert in the Faculty of Commerce at Egerton University were relied upon.

The questionnaire was pilot tested on customers drawn from two banks that were not part of the study. Systematic random sampling technique was used for the selection of the banks for the pre-test. Data collected was coded, keyed in the computer and analyzed with the aid of the Statistical Package for Social Sciences version 15 (SPSS) computer software. Descriptive statistics (frequencies and percentages) was used to describe the findings as they were while inferential statistics (correlation and regression) was used to test hypothesis .Regression analysis was used to test hypothesis 5 and the linear regression model CL= a + B_1SE + B_2IQ + B_3E + B_4R + e was used
Where:
CL= Customer loyalty which is the dependent variable
a= minimum value of the dependent variable if all the independent variables are zero
B_I= Coefficient of service environment (SE)
B_2=Coefficient of interaction quality (IQ)
B_3=Coefficient of empathy (E)
$B_{4=}$Coefficient of reliability (R)
e=Error variable
To test hypothesis 1, 2, 3 and 4 the test statistic was used

$$t_{calculated} = r\sqrt{\frac{n-2}{1-r}}$$

Where:
r = correlation coefficient
n= number of observations
The test statistic was used to test the hypothesis

$H_0 = \rho = 0$

$H_1 = \rho \neq 0$

Where:
ρ =Population correlation coefficient
$H_{O\,=}$ Null hypothesis
$H_1 \neq$ Alternate hypothesis
The research findings were presented in the form of tabular summaries.

4.0 Data Analysis

4.1 Demographic characteristics of the Respondents

4.1.1 Gender of the Respondents

From those interviewed 52.9% were male while 47.1 % were female as shown in the table 1.

Table 1: Gender of the Respondents

Gender	Frequency	Percent
Male	203	52.9
Female	181	47.1
Total	**384**	**100.0**

Source; research data, 2011

4.1.2 Age of the Respondents

Majority of the respondents were below the age of 30 years (35.7%) with 31.5% being between 30-45 yrs of age and 29.2% being between 46-60 years as shown in table 2. Those aged above 60 years were the least with 3.6%. Majority of the banked population are in the category of below forty five years.

Table 2: Age of the Respondents

Age	Frequency	Percent	Cumulative Percent
Below 29 Years	137	35.7	35.7
30-45 Years	121	31.5	67.2
46-60 Years	112	29.2	96.4
Over 61 Years	14	3.6	100.0
Total	**384**	**100.0**	

Source; research data, 2011

4.2 Descriptive Statistics on Service Environment

The first objective of this study was to determine the influence of service environment on customer loyalty in commercial banks within Nakuru Municipality. Service environment is one of the dimensions of service quality differentiation strategy. In this study, service environment was measured using exterior and interior aspects of the bank, space of the banking hall and the dressing of the bank staff.

Table 3: Summary of Service Environment Responses

Service Environment	SD (%)	D (%)	N (%)	A (%)	SA (%)
Interior and exterior of bank is pleasing	0	9.1	2.3	59.4	29.2
The banking hall is spacious enough	3.6	12	1	71.9	11.5
The staff of this bank are well dressed	0	0.8	10.2	26.8	62.2

Source; research data, 2011
Key: SD-Strongly Disagree; D- Disagree; N-Neutral; A- Agree; SA- Strongly Disagree

4.2.1 Exterior and Interior aspects of the Bank

The study sought to know the extent to which customers perceived the pleasantness of the exterior and interior of the bank. Table 3 shows that 88.6 % of the respondents strongly agreed or agreed that the exterior and interior aspects of the bank are pleasing while 9.1% disagreed with this, with 2.3% remaining neutral on the issue. This implies that very many bank customers are very keen of the way the bank looks. This also shows that the banks have visually attractive, equipment, personnel, and communication materials. This is important to the bank customers.

4.2.2 Spaciousness of the Banking Hall

The other aspect of service environment that was measured in this study was spaciousness of the banking hall. The respondents were asked to give their opinions on whether the banking hall of their respective banks is spacious. The findings show that 15.6% of the respondents either disagreed or strongly disagreed that their respective bank halls are spacious while 1% were neutral. Majority (71.9%) of the respondents agreed that banking hall of their respective banks is spacious with 11.5% strongly agreeing as indicated in table 3. The bank customers consider the banking hall space to be an important aspect since most of them were of the opinion that the banking hall of their respective banks is spacious.

4.2.3 Dressing of the Bank Employees

How well dressed the bank staff are, is also another service environment aspect that was looked into. The researcher sought to know the level of agreement on bank staffs being well dressed. Table 3 shows that 89% of the respondents either agreed or strongly agreed that staffs of their respective banks were well dressed. A small proportion 10.2% was neutral on the issue. The fact that the respondents gave their opinion on bank staff dressing shows that they are very keen on the way bank staffs dress.

4.3 Descriptive Statistics on Interaction Quality

The second objective of this study was to establish the influence of interaction quality on customer loyalty in commercial banks within Nakuru Municipality. It encompasses attitudes and behaviors of the service providers and their interaction style with customers. Bank staff should be courteous, warm, pleasant, and polite and they should be able to meet customer's requests quickly.

Table 4: Summary of Interaction Quality Responses

Interaction Quality	SD(%)	D(%)	N(%)	A(%)	SA(%)
The bank employees are courteous, warm and pleasant.	4.9	28.6	0	45.1	21.4
The employees of this bank are polite to customers	0	5.2	8.1	27.1	59.6
Employees of this bank meet customers' requests quickly	5.5	7.3	5.2	65.9	16.1

Source; research data, 2011

4.3.1 Courteousness, Warmth and Pleasantness of the bank employees

From the finding of study, 66.5% of the respondents were for the opinion that the bank employees are courteous, warm and pleasant. Despite the fact that majority strongly agreed or agreed, a considerable percentage (4.9%) strongly disagreed and (28.6%) disagreed were against the opinion that their respective banks employees were courteous, warm and pleasant. From the findings it shown that the respondents were of the opinion that even though the bank employees are courteous, warm and pleasant, in some instances they have not practiced this according to some respondent's views. This is shown in table 5.

4.3.2 Politeness to the Customers

Politeness of the bank employees to customers is another aspect of interaction quality. The study sought to know the level of agreement on bank employees being polite. From the findings of the study, 5.2% disagreed, 8.1% were neutral. Respondents largely agreed that employees are polite (86.7%).Bank employees undergo training on how to handle various types of customers and this is confirmed by the research. This is shown in table 5.

4.3.3 Meeting Customer's Requests

Meeting customer requests quickly is very vital in service provision. Banks customers will be loyal to banks whose employees meet their request quickly. From table 5, the findings show that 12.8% of the respondents either strongly disagreed or disagreed, 5.2% were neutral while 82% either agreed or strongly agreed. This indicated that the banks employees are ready to meet customer request quickly.

4.4 Descriptive Statistics on Empathy

The third objective of this study was to establish the influence of empathy on customer loyalty in commercial banks within Nakuru Municipality. This is also referred to as personalization. It reflects the degree to which service is tailored to meet the needs of the customers. Currently, the competition in banking industry has made banks to offer personalized service for customer loyalty. This study sought to look at customization of services by the bank to meet the specific needs of the customers, if the bank provides individualised attention to its customers and whether the bank employees are interested in solving the customers' problems.

Table 5: Summary of Empathy Responses

Empathy	SD(%)	D(%)	N(%)	A(%)	SA(%)
Bank customizes its services to meet specific needs.	0	15.4	0	74.5	10.1
Bank provides individualized attention to its customers.	0	5.5	4.2	79.9	10.4
Bank employees are interested in solving my problems.	0	18	4.7	57.6	19.7

Source; research data, 2011

4.4.1 Customization of Services

On customization (personalization) of services to meet customers' needs, the findings in table 5 shows that majority of the respondent agreed that banks have customized their services (74.5%). Some respondents disagreed (15.4%) with this opinion. It can be concluded that banks have been up to task to customize their services so as to meet the customers' needs. Competition has made banks to modify their services to suit the customer's needs. This makes them flexible to the increasing customer's needs.

4.4.2 Individualized attention to Customers

From the findings of this study majority of the respondents (79.9%) agreed with the opinion that their respective banks provide individualized attention to their customers while 10.4% strongly agreed with the same opinion. The remaining 9.7% either disagreed or were neutral.

Competition has made banks to take keen interest in their customers and this is why they have provided individualized attention to their customers as evidenced in table 5.

4.4.3 Interest in Solving Customers' Problems

Showing interest in solving customer's problems by bank employees goes a long way in enhancing customer loyalty. The finding shows that 18% of the respondents disagreed that the bank employees show interest in solving customer problem, 4.7% were neutral, 57.6% agreed while 19.7% strongly agreed. Banks are keen on customers' problems which are in line with the banks policy. A bank will take all the measures to mitigate losses. This is done through vetting by credit committees in order to avoid bad debts. This is shown in table 5.

4.5 Descriptive Statistics on Reliability

The fourth objective of this study was to establish the influence of interaction quality on customer loyalty in commercial banks within Nakuru Municipality. This is the ability to perform the promised service dependably and accurately. The number of contact points with customers, duration for delivering service like processing cheques, cash deposits and loans and providing services right the first time constitute the reliability dimension.

Table 6: Summary of Reliability Responses

Reliability	SD(%)	D(%)	N(%)	A(%)	SA(%)
Number of contact points with customers are many	0	22.4	0	69.3	8.3
Duration of service delivery is fast enough	0	20.6	0	51.8	27.6
Employees provide services right the first time	4.2	4.4	8.6	50.3	32.5

Source; research data, 2011

4.5.1 Number of Contacts Points with Customers.

The banks number of contacts points within the banking hall with its customers makes customers to access services conveniently thus enhancing customer loyalty. The more the contacts points for example cashiers and ATMS, the more reliable it is to the customers. The research sought to know the opinion of respondents on number of contacts points being many. The findings show that 22.4% disagreed that their respective banks have many contacts points, 69.3% agreed while 8.3% strongly agreed. From, the findings as shown in table 6, majority of customers believe that their respective banks have many contacts points. Competition has enhanced the efforts by banks to create more contact points with their customers .This is evidenced by mobile banking, agency banking, internet banking, strategic alliances, increase in bank tellers and increase in automated machine services.

4.5.2 Duration of Service Delivery.

Time taken for one to get a service dictates whether that person will be loyal or not. This study sought to seek the opinion of the bank customers on how fast service delivery is i.e. processing of cheques and loans. The findings in table 6 shows that 20.6% disagreed, 51.8% agreed and 27.6% strongly agreed that service delivery in terms of cheques and loan processing is fast enough. Fast service delivery is very vital in enhancing customer loyalty.

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4.5.3 Provision of accurate Services the First Time

On the issue of service provision by bank employees being right the first time, 4.2% strongly disagreed that employees of the their respective bank provide services right the first time, 4.4% disagreed, 8.6% were neutral, 50.3% agreed while 32.6% strongly agreed. From the findings as shown in table 6, it is evident that most bank employees provide service right the first time. Bank employees are usually trained on the importance of effectiveness since financial matters are sensitive and customers are not ready to gamble with ineffective employees.

4.6 Customer Loyalty

Customer loyalty was the dependent variable. Customer loyalty is the customer's commitment to the bank's products and services as a result of established relationship with the bank.

Table 7: Summary of Loyalty Responses

Customer Loyalty	SD(%)	D(%)	N(%)	A(%)	SA(%)
I will stay with this bank in the future	0	9.9	8.1	29.2	52.8
I recommend this bank to people I know and meet	0	4.2	2.6	43.8	49.4
I proudly tell people about the good service quality of this bank	0	9.6	0	52.1	38.3

Source; research data, 2011

4.6.1 Staying with the Bank in Future

On the question of staying with the bank in the future, 9.9% disagreed that that they will stay with the bank in the future, 8.1% were neutral, 29.2% agreed while 52.8% strongly agreed as shown in table 7. From the findings, it is evident that the respondents will stay with their respective banks in the future. This implies that the respondents are loyal to their respective banks. A bank should ensure that it meets its customer's expectations for them to be willing to stay with the bank in the future.

4.6.2 Recommending the Bank to others.

On whether the respondents recommend their respective banks to people they know and meet, 4.2% disagreed, 2.6% were neutral, 43.8% agreed while 49.4% strongly agreed as evidenced in table 7. From the findings as shown in table 7, it is evident majority of the respondent recommends their respective banks to people they know and meet. This may imply that that they receive good services from their respective banks and that is why they recommend the bank to people they know and meet.

4.6.3 Telling People about Service Quality of the Bank.

From the findings as evidenced in table 7, the respondents' opinion on whether they would proudly tell people they meet and know about the good service quality service of their respective banks was that, 9.6% disagreed, 52.1% agreed while 38.3% strongly agreed. This implies that the respondents receive good service quality from their banks and that is why they can proudly tell others.

4.7 Hypotheses Testing

The mean of the three components under each of the independent variables (service environment, interaction quality, empathy and reliability) as well as that of the dependent variable (customer loyalty) was obtained of all the 384 respondents. This ensured that there was one overall mean for service environment, interaction quality, empathy, reliability and customer loyalty for all the 384 respondents.

Table 8: Summary of Correlations

			SE	IQ	E	R	CL
Spearman's rho	SE	Correlation Coefficient	1.000	-.012	.117(*)	.019	-.044
		Sig. (2-tailed)	.	.808	.021	.710	.385
		N	384	384	384	384	384
	IQ	Correlation Coefficient	-.012	1.000	.223(**)	.111(*)	-.242(**)
		Sig. (2-tailed)	.808	.	.000	.030	.000
		N	384	384	384	384	384
	E	Correlation Coefficient	.117(*)	.223(**)	1.000	-.306(**)	-.327(**)
		Sig. (2-tailed)	.021	.000	.	.000	.000
		N	384	384	384	384	384
	R	Correlation Coefficient	.019	.111(*)	-.306(**)	1.000	-.174(**)
		Sig. (2-tailed)	.710	.030	.000	.	.001
		N	384	384	384	384	384
	CL	Correlation Coefficient	-.044	-.242(**)	-.327(**)	-.174(**)	1.000
		Sig. (2-tailed)	.385	.000	.000	.001	.
		N	384	384	384	384	384

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

Source; researchers compilation, 2011

Key:

SE -Service Environment, IQ - Interaction Quality, E – Empathy, R -Reliability
CL - Customer Loyalty

Correlation is the degree of relationship between two variables. It is a relative measure of value and it ranges from negative one to positive one. Negative correlation implies that two variables are moving in opposite directions while positive correlation implies that they are moving in the same direction (Kothari, 2004).

$H_0$1: There is no Significant Influence of Service Environment on Customer Loyalty in Commercial Banks within Nakuru Municipality.

In the correlation analysis of the study as shown in table 8, the correlation between service environment and customer loyalty was a very weak negative correlation. The negative relationship indicates that the more the banks adopt service environment the less the customer loyalty but the correlation is not significant (r= -0.044, P > 0.05) .The null hypothesis (H_0) that there is no significant influence of service environment on customer loyalty in commercial banks within Nakuru municipality was accepted .This could imply that bank customers in Nakuru Municipality do not consider interior and exterior of the bank, banking hall spaciousness and the dressing of the bank staff for them to remain loyal to their respective banks. These results are consistent with other studies that have shown that there is no significant influence of service environment on customer loyalty (Cronin & Taylor 1992).

$H_0$2: There is no Significant Influence of Interaction Quality on Customer Loyalty in Commercial Banks within Nakuru Municipality.

There is an indirect relationship between interaction quality and customer loyalty as shown in table 8 , however the degree of the relationship between the two variables is weak .This implies the more the banks adopt interaction quality, the lesser the customer loyalty they achieve. This relationship is significant thus the null hypothesis (H_0) that there is no significant influence of interaction quality on customer loyalty in commercial banks within Nakuru Municipality should be rejected ($r=-0.242, P< 0.01$).This could imply that the bank employees being courteous, warm, pleasant, polite and meeting customers' requests quickly affect the customers' loyalty but negatively. These results are inconsistent with other studies that show a significant but positive correlation between the two aforementioned variables (Gerard, Nicholas, Alexandros & Magsalini, 2010).

$H_0$3: There is no Significant Influence of Empathy on Customer Loyalty in Commercial Banks within Nakuru Municipality.

There is a moderate relationship between empathy and customer loyalty variables as shown in table 8. This implies that increase in application of empathy leads to a decrease in customer loyalty. The relationship is significant ($r=-0.327, P< 0.01$) thus the null hypothesis that that there is no significant influence of empathy on customer loyalty in commercial banks within Nakuru Municipality was rejected. This could imply that the bank customizing its services, providing individualised attention to customers and being interested in solving customers' problems do influence customer loyalty but negatively. These results are inconsistent with other studies which show a significant but positive correlation between empathy and customer loyalty (Mohammad & Noorjahan, 2009).

$H_0$4: There is no Significant Influence of Reliability on Customer Loyalty in Commercial Banks within Nakuru Municipality.

Reliability and customer loyalty are negatively correlated, this means that the two variables are inversely correlated meaning they move in different directions this implies that increased use of reliability dimension by the banks reduces customer loyalty. The relationship is significant ($r= -0.174, P< 0.01$) thus the null hypothesis that there is no significant influence between reliability and customer loyalty should be rejected. This could imply that the number of contact points with customers, duration of service delivery and providing services right the first time affects customer loyalty but the two variables are negatively correlated. These results are inconsistent with other studies that have shown a significant and positive correlation between reliability and customer loyalty (Mohammad & Noorjahan, 2009).

Ho5: There is no single independent variable that significantly influences customer loyalty in commercial banks within Nakuru Municipality.

Regression analysis usually enables confirmation of relationships between the independent and dependent variables since not all factors that are found to be significant in the correlation analysis influence the dependent variables. On conducting the regression analysis on the

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identified variables which were service environment, interaction quality, empathy and reliability against customer loyalty the following results were obtained as discussed below.

Table 9a

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R square change	F Change	df1	df2	Sig. F Change
1	.451	.203	.195	.572	.203	24.197	4	379	.000

a Predictors: (Constant), R, SE, IQ, E

Source; researchers compilation, 2011

Table 9b

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	31.658	4	7.915	24.197	.000[a]
Residual	123.967	379	.327		
Total	155.625	383			

a Predictors: (Constant), R, SE, IQ, E

b Dependent Variable: CL

Source; researchers compilation, 2011

Table 9c

	Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics	
	B	Std. Error	Beta	Sig.	Tolerance	VIF
(Constant)	8.403	.518		.000		
SE	-.002	.082	-.001	.976	.982	1.019
IQ	-.110	.048	-.110	.022	.915	1.093
E	-.557	.072	-.388	.000	.826	1.210
R	-.427	.073	-.289	.000	.870	1.150

a Dependent Variable: CL

Source; researchers compilation, 2011

The R value which is the correlation coefficient was 0.451 as shown in table 9a meaning there was a relationship between service environment, interaction quality, empathy, and reliability as independent variables with customer loyalty as the dependent .The co-efficient of determination (R^2) indicated a value of 0.203; this indicates that about 20.3% of the variation is explained by the predictor (independent) variables while the remaining proportion of 79.7% could be explained by other factors and also by chance or error. The F value was 24.197 as shown in table 9b, meaning that the improvement due to fitting the regression model is much greater than the inaccuracy within the model. The F ratio of 24.197 is very unlikely to have happened by chance since $p < 0.05$.This results mean that the final model significantly improves the ability to predict the outcome variable (customer loyalty).The null hypothesis (5) that there is no one significant factor that influences customer loyalty in commercial banks within Nakuru Municipality was thus be rejected . This is consistent with a study by Boulding et al. (1993) which found positive relationships between service quality dimensions and customer loyalty yet the results of this study are inconsistent with the study by Cronin & Taylor (1992) that found out that service quality did not appear to have a significant positive effect on intentions to purchase again which is a customer loyalty component,. The relationship between SQ and customer loyalty is a positive one, (Caruana, 2002).

As shown in table 9c the standardized beta values are all negative meaning the contribution of the independent variables and the dependent variable move in opposite directions. As evidenced in table 9c below, interaction quality, empathy and reliability have significance values ($P< 0.05$) meaning the three independent variables contribute significantly to the model and thus the null hypothesis 2,3 and 4 should be rejected. Service environment does not contribute significantly to the model ($P> 0.05$) thus the null hypothesis 1 should be accepted. This is consistent with the correlation analysis done above and it confirms the correlation results. Empathy has the highest contribution to the model followed by reliability. In third position is interaction quality and lastly service environment makes the least contribution to the regression model. The multiple regression equation derived from the analysis is shown below;

$CL = a + B_1SE + B_2IQ + B_3E + B_4R+e$

Where:

CL = Customer loyalty which is the dependent variable
A = Minimum value of the dependent variable if all the independent variables are zero
B_I = Coefficient of service environment (SE)
B_2 = Coefficient of interaction quality (IQ)
B_3 = Coefficient of empathy (E)
B_4 = Coefficient of reliability (R)
E =Error variable

The value of 8.403 shown in table 9c is the constant value. This is the minimum value of the dependent variable in a situation where all the independent variables are zero. The coefficient of service environment was – 0.002. The degree of movement is however very small and thus it may not have much impact on customer loyalty. The coefficient of interaction quality was -0.110 that of empathy was -0.557. Lastly the coefficient of Reliability was -0.427. The coefficients for all the independent variables were negative indicating that they all move in the opposite direction with the dependent variable which is customer loyalty.

The term multicollinearity (or Collinearity) is used to describe the situation when a high correlation is detected between two or more predictor (independent) variables. Table 9c shows the variance inflation factor (VIF) which measures the impact of Collinearity among the variables in the regression model. Values of VIF that exceed 10 are often regarded as indicating multicollinearity, but in weaker models values above 2.5 maybe a cause of concern. It can be concluded from the findings presented in table 9c of the regression model that multicollinearity is not present among the four independent variables.

5.0 Conclusions

In the banking sector, there is cut-throat competition; for a bank to survive it must come up with differentiation strategies that will ensure that the customers are satisfied and thus enhancing customer loyalty. It can be concluded that banks have put a lot of emphasis on their employees to ensure they interact well with customers by being courteous, warm,

pleasant, and polite and being able to meet customers' requests quickly. The banks have also customized their services so as to have a competitive advantage over their competitors. It can also be concluded, based on the findings that banks are customizing their services, providing individualized attention and are interested in solving customers' problems. Also due to competition the banks have to be reliable. This is evidenced by them being very keen on having many contact points with customers, duration of service being fast and providing services right the first time.
It can be concluded that interaction quality, empathy and reliability influence customer loyalty significantly but negatively. This implies that the increase use of the dimensions by the bank did not necessarily lead to an increase in customer loyalty. It can be concluded that service quality differentiation dimensions influence customer loyalty but negatively. This means that there are other factors that influence customer loyalty that are worth investigating such as interest rates, and location.

6.0 Study Recommendations

Banks should focus on changing how they apply the service quality differentiation dimensions in the banking industry so that the dimensions influence customer loyalty positively. They can do this by training the bank staff on the importance of differentiation in a competitive business environment. Bank managers should also understand customers' needs and differentiate on aspects that add value in customers' perspectives so as to increase customer loyalty since from the study the service quality differentiation dimensions influenced customer loyalty negatively. This can be achieved by ensuring the bank staff interact with the customers and ask them what they expect of the bank.

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