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ABSTRACT

Commercial banks are important financial institutions in any economy because they mobilize savings for investments and wealth creation. The service industry is very competitive while products offered are similar hence their only source of competitive strategy is differentiation of service offered. Consequently this study selected one of the service quality dimensions (service environment) and examined its effect on customer loyalty among major commercial banks in Nakuru town. The objective was to examine how bank service environment discriminates between performances (customer loyalty) of the major banks in Nakuru Town. It adopted descriptive research design and selected 120 customers from the six major banks in Nakuru town. Data collected was analyzed using SPSS to test the independence and relationship using Kruskal-wallis difference test, Pearson correlation coefficient and OLS multiple regression analysis. The banks service environment is strongly associated with customer loyalty ($r=0.7$). The factor was also a significant predictor of customer loyalty among the sampled banks in Nakuru town at the 0.05 level of significance. It was also apparent that customer loyalty between the sampled banks did not differ significantly based on the nature of service environment provided by the respective banks. The recommendation was that bank managers and staff need to focus their attention at modernizing their facilities, providing sufficient lighting and ventilation and strive to be more empathetic to their customers.

Key Words: Service Environment, Customer Loyalty, Commercial Banks

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INTRODUCTION

Service quality and customer loyalty have remained central to the survival of service firms in a globally competitive environment. The competition for consumer attention and choice continue to be key factors in service industry and are thought to be related one way or another. Service quality has been seen to be defined by the gap between what a customer gets and what his/her expectation was/is according to Lonial et al. (2005). Service firms recognize customer loyalty in the creation and maintenance of competitive advantage (Apondi, 2016). By continuously making improvements and following up on the kind of services provided to customers, then a company's earnings can be expected to rise due to consumers increased satisfaction with the quality of service or product delivered.

Increased competition in the financial sector and advancing technology in information and communication around the world demand that financial firms take a keener look at what they sell to customers and how that is delivered. Since the financial services sector main business is lending and facilitating financial transactions, the quality of service they provide is likely to separate performance in terms of profits and customer numbers (Muhsin et al., 2012). Apondi (2016) argues that loyal customers are attached to their banks and thus would be easy to serve and continue earning a decent return from them than to attempt to attract new customers. When service quality is poor then customers are likely to shift attention to other providers which so far is a major reason why banks should be unique in ways of

delivering quality service to customers. Therefore, the biggest challenge to service companies today is to attract and maintain loyal customers (Wong & Sohal, 2003)

The banking sector in the Kenyan market is significantly large by market capitalization. Many of the banks provide regular banking, insurance and credit services to customers in Nakuru town and its surrounding. This study seeks to determine how service quality applied as a strategy for competitive advantage influences customer loyalty among commercial banks in Nakuru Municipality.

Problem Statement

There is increased realization that high service quality would result in higher customer satisfaction and loyalty, willingness to recommend to someone else, reduced complaints and improved customer retention rate (Levesque & McDougall, 1996). Increased competition between banks has pushed the institutions beyond looking at banking process to focusing on how services are delivered. Among the many service quality models constructed, SERVQUAL (Parasuraman, 1988) has become more popular for many service industries including banks. This model measures perceptions of service quality against expectations using five dimensions of reliability, responsiveness, tangibility, assurance and empathy. This paper examined effect of one of the dimensions of service quality namely service environment on customer loyalty. Specifically the aim was to determine how well service environment predict customer loyalty among commercial banks in Nakuru town.

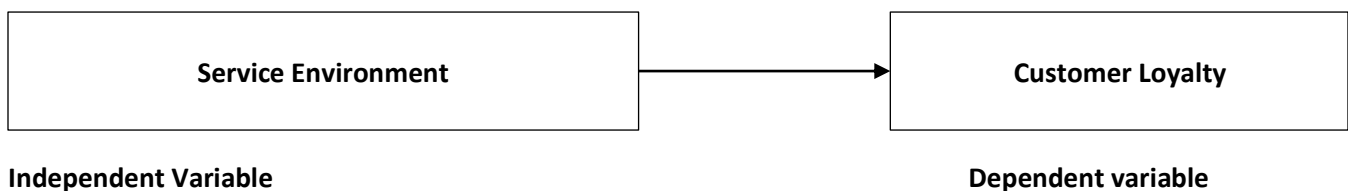


Figure 1: Conceptual Framework

LITERATURE REVIEW

Abbasi, Khalid, Azam and Riaz (2010) define quality as the perception of the customer on how well a product or service meets or exceeds their expectations. Quality service can be subjective or objectively measured if some external standard is applied. It is a key determining factor of customer satisfaction and precipitates the customer to seek value for money. It is generally an accepted view by researchers including (Kadir et al. 2011) that service quality measurement is important for organizations that compete to deliver service financial or otherwise. A competitive advantage in service sector stems from the providers ability to promise and deliver superior service. Whereas the particular indicators of customer loyalty is easy to isolate, the specific drivers of service quality is still debatable among scholars and researchers. (Kabira, 2015).

SERVQUAL is an acronym for service quality. It is a quality tool that can be used to measure and identify gaps in service delivery that need urgent attention (Zeithaml *et al.*, 2013). They developed a multi item scale (SERVQUAL) for measuring service quality. The model assesses customer perceptions on service quality in service and individual experience explained by tangibility, reliability, responsiveness, empathy and assurance. This paper explores one of the dimensions of SERVQUAL (Tangibility) which in this study is referred to as Service environment and its influence on customer loyalty among major banks in Nakuru town.

Commercial banks need to understand the service attributes used by customers to select banking service. For instance customers would use bank image, bank performance, bank assurance, and physical layout of the bank in selecting bank services. When banks understand the thinking of its customers then they are able to manage customer feelings toward their product and service. This way they are better able to guide customer's attitudes and views in

the desired direction thus encouraging customer loyalty.

The service environment describes a banks physical layout, arrangement of chairs tables, their comfort and design in the banking hall and lobby. This dimension of service quality is sometimes called tangibility and refers to how appealing and visually attractive the bank facilities are both inside and outside the banking hall. Tangibles according to Davis et.al (2003) are the physical evidence of the service. The physical nature of banking refers to; space adequacy, clean well ventilated and orderly facilities to create the necessary ambience for customer comfort. Further, the staff should be smart and knowledgeable about their tasks, work flow and feedback procedure.

Customer loyalty is a concept continues to enjoy significant attention among scholars and researchers. Saeed et al., (2011), Zairi, (2009) and Khan, (2012) point out benefits of focusing on winning customer loyalty. These include reduced tendency to switch loyalty, increased customer trust and quality service to clients. Customer loyalty occurs when a customer is already satisfied therefore achieving satisfaction is first and foremost before loyalty can happen.

Nuria (2015) while studying effects of service quality practices on customer satisfaction in commercial banks in Kenya realized that commercial banks relied on SERVQUAL dimensions to some extent. Apondi (2016) concludes all the dimensions of service quality are positively and significantly related to customer loyalty among banks in Kenya, Sidi (2016) report results that are in direct contrast. She contends that all the dimensions of service quality are statistically insignificant at the 0.05 level.

In the Middle East, Rousan and Mohammed (2010) conducted a study on the relationship between service quality and customer loyalty in the hotel industry in Jordan and found out that empathy, reliability, responsiveness, tangibility, and assurance

significantly predict customer loyalty. Similar results were reported by Chen and Lee (2008), Liang (2008), Rizan (2010), Jamal and Anatassiandoin (2007). However, Kheng et al (2010) concluded that tangibility had no significant impact on loyalty among bank customers in Malaysia. Service quality findings from Nsia and Asantewaah (n.d) on the effects of service quality on customer retention among banks in Ghana had positive and significant coefficients of as follows; tangibility, (0.778).

METHODOLOGY

The study employed a correlation approach to analyse the problem of service environment across major banking entities in Nakuru town. Data collected was cross sectional involving a sample of 20 respondents from each of the six major commercial banks in Nakuru town. Bank customers targeted were both male and female aged above 18 years seeking

banking service in the institutions. The 6 major banks which were operating within Nakuru town were Barclays, Cooperative, Standard Chartered, Equity, National and Kenya Commercial Bank and the remaining were smaller banks. Mugenda and Mugenda, (1999) state that between 10 and 30 percent of the target population can make up a sample. Sample elements (Customers) were selected conveniently at the pleasure of the researcher and the target respondent. A modified SERVQUAL questionnaire based on service environment with both structured and unstructured questions was used to collect data from the customers. Data analysis was conducted to reveal descriptive and inferential statistics using SPSS software. A Pearson correlation coefficient and regression slope coefficients were derived to determine relationship between the variables and predict effect of service environment on customer loyalty.

RESULTS

Table 1: Descriptive Statistics for Service Quality Dimension

	Barclays Bank		Coop Bank		Standard Bank		Equity Bank		National Bank		KCB	
	μ	σ	μ	σ	μ	σ	μ	σ	μ	σ	μ	σ
Service Environment	2.7	0.9	2.60	0.73	2.81	0.76	2.9	0.77	2.7	0.4	2.65	0.38
Customer Loyalty	2.94	0.38	2.70	0.45	2.9	0.55	3.07	0.65	2.77	0.55	2.75	0.31

Service environment refer to the physical appearance of the banking institution, physical facilities, equipment, personal and communication material (stationery). This environment creates the right ambience and atmosphere that would make a customer feel more comfortable and the banking hall more attractive. Table 1 indicated that service environment score was comparatively higher for Stanchart bank and lowest for Cooperative bank with a mean rank 2.81 and 2.6 respectively. The standard

deviation was 0.76 and 0.73 respectively. This meant that Stanchart bank provided better service environment compared to other banks sampled in the study. However Cooperative bank did not provide very good service environment according to the customers of the bank. Conversely customer loyalty as the dependent variable was strongest for Equity bank customers and weakest for Cooperative bank customers (mean ranks of 3.07 and 2.7 respectively).

Table 2: Descriptive statistics for service Environment Scale

Statement/scale	1	2	3	4	5	mean	SD
The bank has modern looking facilities	19 (17.9)	18 (17)	30 (28)	23 (21.7)	16 (15.1)	2.99	1.31
The bank's physical features are visually appealing.	11 (10.4)	25 (23.6)	34 (32.1)	22 (20.8)	14 (13.2)	3.03	1.18
The bank's reception desk employees are smart dressed.	9 (8.5)	27 (25.5)	24 (22.6)	23 (21.7)	23 (21.7)	3.23	1.28
Bank provides comfortable experience	7 (6.6)	25 (23.6)	24 (22.6)	40 (37.7)	10 (9.4)	3.2	1.11
Banking hall is well ventilated	16 (15.1)	28 (26.4)	14 (13.2)	32 (30.2)	16 (15.1)	3.04	1.33
Banking hall has good lighting	18 (17)	25 (23.6)	19 (17.9)	29 (27.4)	15 (14.2)	2.98	1.33
Bank provides adequate space for customer comfort	9 (8.5)	24 (22.6)	26 (24.5)	22 (20.8)	25 (23.6)	3.28	1.28

From the descriptive Table above, while banking halls were comfortable for the customers, lighting of the halls was not sufficient and this may affect vision for some customers. It was apparent that the mean rank for the items averaged 3.0 which meant that respondents fairly agreed to the physical facilities,

ventilation, and physical appearance staff to being satisfactory. However the halls were not well lit and facilities were not quite modern. This if not addressed would result in customer dissatisfaction and reduced loyalty for the banks.

Correlation Statistics

Table 3: Service Environment and Customer loyalty

Customer	Pearson Correlation	.749**
loyalty	Sig. (2-tailed)	.000
	N	106

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

At the 0.05 level of significance a Pearson correlation coefficient in Table 3 between service environment and customer loyalty indicated a strong (0.749) positive relationship which was also statistically significant (P=0.0005) this result was consistent with that by NSia and Asantewah (n.d) on the effect of service quality on customer retention among Ghanaian banks which returned a coefficient of 0.778 for tangibility. Ahmad et al (2016) in Pakistan, Osman et al (2015) in Malaysian commercial banks realized stronger relationship between service quality (physical facilities) and customer loyalty. However Kheng (2010) arrived at opposite results that physical

facilities were not significantly related to customer loyalty.

Estimated regression equation for Service Environment on Customer Loyalty

The estimated regression equation was as below;

$\hat{Y} = 10.72 + 0.481 x_1$ where X_1 is service environment (1)

t 6.72 10.21

p (0.000) (0.001)

The interpretation of the regression equation (1) was that when service environment is improved by a unit, then customer loyalty is likely to rise by 0.481 units.

The positive and significant coefficient is consistent

with extant literature ($t= 10.21, p= 0.001$). Therefore commercial banks in Nakuru town may improve customer loyalty of customers by improving the service environment which includes providing sufficient lighting, ventilation and modernizing

banking hall facilities. Bank staff should also look smart and the queue management made easy and fast. These issues carry more premiums for the customers. Performance difference between the banks was tested by Kruskal-Wallis U test.

Table 4: Kruskal-Wallis Test for Difference in Performance

		Ranks	
	Name of bank	N	Mean Rank
Customer loyalty	Barclays Bank	16	60.66
	Cooperative bank	18	43.14
	Standard chartered bank	17	56.53
	Equity bank	17	64.79
	National Bank	17	46.38
	KCB	21	51.10
	Total	106	
Test Statistics ^{a,b}			
Customer loyalty sum			
Chi-Square			6.487
Df			5
Asymp. Sig.			.262

a. Kruskal Wallis Test

b. Grouping Variable: Name of bank

The difference test (Table 4) conducted on the mean ranks of data across the six banks to test whether any of the differences observed were significant showed that service quality practices did not separate performance. The result showing a chi-square value 6.487 was not statistically different from the critical value. Therefore customer loyalty performance across the banks was not different perhaps because differences in the quality of service provided between banks are not statistically different.

CONCLUSION

Service environment which describes the physical appearance of the banks in both human and material form is positively and significantly related to customer loyalty. The association is quite strong towering above the other factors. It was observed that the physical environment of the bank plays a major role in predicting how much customer loyalty

may change. Therefore a focus on the space, comfort, ventilation, lighting, furniture and documentation is necessary to improve the satisfaction of customers about their banking experience and hence increase customer loyalty. A good service environment when created in all its aspects has the potential of improving customer loyalty by up to 50 percent all else remaining the same. The coefficient between service environment and customer loyalty is very strong ($r=0.7$). This result was consistent with that by NSia and Asantewah (n.d) on the effect of service quality on customer retention among Ghanaian banks which returned a coefficient of 0.778 for tangibility. Other studies (Ahmad & Ahmad 2016) involving the banking sector in Pakistan realized low correlation coefficient (0.229) between service quality and customer satisfaction but fairly stronger association between customer satisfaction and customer loyalty (0.568). However, Kheng et al (2010) concluded that

tangibility had no significant impact on loyalty among bank customers in Malaysia.

A Kruskal-Wallis test was used to test the difference between the mean ranks of the service quality factors based on the customer loyalty performance. This test of independent sample was used because scores were ranked data. The test result returned a non-significant value of ($\chi^2=6.48$, $p=0.262$) with the conclusion being that there is no significant difference in the customer loyalty levels between customers of the various banks examined in this study. Hence performance of each sampled bank based on loyalty of its customers does not differ significantly at the 0.05 level of significance. This may be because the major banks have invested heavily on

customer service comfort and experience and hence may not differ much in terms of the experience provided.

RECOMMENDATION

Service environment must be improved for all the banks since the correlation coefficient is very strong with customer loyalty. This could be achieved through modernizing facilities that may still be lagging behind. Coop bank had the weakest rating on this dimension while Stanchart bank fared well. The lighting of the facilities and ventilations needed improvements especially for those banks other than Stanchart bank. Other aspects like space and furniture should be enhanced for better customer's experience.

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