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Full Length Research Paper

Service quality, satisfaction, perceived value and loyalty among customers in commercial banking in Nakuru Municipality, Kenya

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Service firms have increasingly recognized the role of customer loyalty in the creation and maintenance of competitive advantage. Customer loyalty positively influences firm performance. Keeping loyal customers is beneficial to organizational performance despite there being little agreement as the determinants of customer loyalty in commercial banks. Therefore, this paper examines the extent to which service quality, perceived value and satisfaction influence customer loyalty in commercial banks. To achieve this, data were collected using a questionnaire from 381 respondents who were selected through stratified random and systematic sampling procedures. Data analysis was done through Pearson correlation and regression. The findings revealed that there was a positive and significant relationship between service quality, customer satisfaction and customer value, and customer loyalty. This study also found that service quality, customer value and satisfaction are critical success factors that influence the competitiveness of an organization. It is therefore recommended that banks should adopt the model consisting of the three constructs to create and maintain customer loyalty so as to improve performance and create competitive advantage.

Key words: Service quality, satisfaction, perceived value, customer loyalty, commercial banking.

INTRODUCTION

Customer loyalty is very significant in the creation and maintenance of competitive advantage in the service industry. There are economic advantages associated with retaining loyal customers as opposed to recruiting new ones. This realization has made industry practitioners and academics pay increasing attention to customer loyalty studies (Ndubisi, 2007). In order to remain competitive, commercial banks need to build and enhance customer relationships that deliver value beyond that provided by the core product (Zineldin, 2006). The benefits associated with such an approach include improved firm performance, profitability, business referral and publicity, customer share and competitive positioning (Hennig-Thurau et al., 2002).

In the banking sector, loyal customers are more profitable because they are attached to the bank and thus are easier to serve than those who are non-loyal. Bowen and Shoemaker (1998) maintain that a small increase in loyal customers can result in a substantial increase in profitability. Furthermore, the longer a loyal customer stays with a firm, the more profitable it is to that firm (Kim and Cha, 2002). Reichheld and Sasser (1990) found that firms could improve their profits from 2 to 8% by reducing customer defections by 5%. Thus, keeping loyal customers represents a strategy for achieving distinct and sustainable competitive advantage (Roberts et al., 2003).

Abbreviations and Accronyms: ANOVA, Analysis of variance; **ATM,** Automated Teller Machines; **CL,** customer loyalty; **CS,** customer satisfaction; **CN,** condition number; **GDP,** gross domestic product; **LOYINDEX,** customer loyalty index; **SATINDEX,** customer satisfaction index; **SERVINDEX,** service quality index; **SQ,** service quality; **VALUEINDEX,** customer value index; **VIF,** variance inflation factor; **WOM,** word of mouth.

The banking industry globally is facing a very competitive environment that is forcing it to enhance the development and sustainability of loyalty opportunities. However, there is little agreement on the determinants of customer loyalty. This study attempted to develop a three-dimensional customer loyalty model comprising of service quality, satisfaction and value in commercial banking.

The banking sector in Kenya has experienced drastic changes that have resulted in deregulation and liberalization; declining interest margins due to customer pressure, increased demand for non-traditional services including the automation of a large number of services and a move towards emphasis on the customer rather than the product; and the introduction of non-traditional players who now offer financial services products. Many of these trends have resulted in mergers, acquisitions and reorganizations in the banking sector. This trend has been characterized by a low customer base and declining profitability (Levesque and McDougall, 1996).

There are also significant developments in the banking sector that are affecting the marketing of their products. Firstly, the changing customer behavior that is characterized by longer life spans, increasing urbanization, more women in employment, increased home ownership, higher incomes and increased living standards. Customers are more demanding, more financially educated or informed, more cost and price conscious than hitherto. Secondly, reduced prices of services, interest rates and profit margins due to deregulation and globalization of financial markets. This has ensued fierce competition resulting in mergers, acquisitions, and a number of major structural reorganizations that include retrenchment and elimination of unprofitable activities as well as closure of some branch operations. Majority of multinational banks such as Barclays Bank Ltd and Standard Chartered Ltd have shifted their focus from retail to corporate customers as a survival strategy. Thirdly, technological innovations such as Automated Teller Machines (ATM), electronic banking such as internet and phone banking are helping to broaden the resources and ability of the institutions to compete in this volatile industry. New products, new payments systems, new forms of distribution and delivery and enhanced management information systems such as customer database systems are being used by some banks to create differential advantage .

All these changes have led to increased attention to customer relationship and service quality as a way of attracting, maintaining and enhancing long-term multiple-service relationship. Many financial service providers are creating competitive advantage by differentiating their products from their competitors through service quality delivery in terms of on-time delivery, provision of accurate information, customization, trained personnel and quicker complaints resolution. Therefore, delivery of superior service quality has become one of the most important strategies for customer retention and loyalty.

Firms often attempt to improve service quality, perceived value, satisfaction and to increase loyalty through innovations in products and services (Meidan, 1996) but such innovations are often imitated by competitors. It is however argued that a more viable approach for banks is to focus on less tangible and less easy-to- imitate determinants of customer loyalty that include service quality, customer value and satisfaction (Yavas and Shemwell,1996). In fact, as the products of many banks are very identical or slightly differentiable, loyal customers have a huge value since they are likely to spend and buy more, spread positive word of mouth, resist competitors' offers, wait for a product to be available and recommend others to their service provider. Banks and other service organizations now focus on the development and maintenance of long-term relationships with loyal customers as a means of achieving competitive advantage. There is a positive relationship between customer loyalty and business performance (Reichheld and Sasser, 1990).

One of the main challenges of commercial banks has been on establishing and maintaining customer loyalty. Commercial banks have been experiencing high degree of customer switching from one bank to another. Service managers are noticing more frequently a lack of retention and loyalty even among satisfied and delighted customers. This situation has been referred to as "the satisfaction trap". Studies on customer loyalty indicate that there are many customers who are devoutly loyal to products even when they are substandard compared to the alternatives. In fact they are devotedly loyal to the extent that they routinely pay premium prices for these products. This perplexing phenomenon may be attributed to lack of understanding of the determinants of customer retention and loyalty in many service industries. This has attracted a lot of scholars in marketing theory and practice to examine the subject of customer loyalty.

Statement of the problem

One of the major global trends is the dramatic growth of the services industry. In America today, the service sector accounts for about 77% of total employment and 70% of gross domestic product (GDP). It is envisaged that in the next ten years services will provide 90% of all new jobs in America (Kotler and Armstrong, 1999). The authors further argue that as a result of rising affluence, more leisure, and the growing complexity of products require servicing making the world a service economy. Kenya's banking sector, in terms of GDP at market prices contributes about 40%. The sector is largely controlled by five major banks that account for about 77% of the market.

In the banking circles, there are numerous complaints from customers in almost all banks (Daily Nation, March, 1996). This has resulted in promotional campaigns in both electronic and print media on how they provide better services than their competitors. In an effort to outperform their competitors, banks have introduced "Technovative" service, in which technology is being used to improve service delivery to customers. The banks have introduced Automated Teller Machines (ATMs), internet banking and other e-banking services as well as customer care services.

Thus, the development and sustainability of customer loyalty is important in creating and maintaining competitive advantage. The success of firm performance is affected by the level of customer loyalty because acquiring new customers is far more expensive that maintaining existing ones. Therefore, firms that desire to remain competitive, need to build and enhance relationships with loyal customers because of its benefits that include profitability, business referral and publicity, customer share and competitive positioning (Hennih-Thurau et al., 2002). Given that it is increasingly becoming difficult to achieve customer loyalty in a competitive environment and that it remains ambiguous regarding its underlying determinants (Liang and Wang, 2005), researchers have attempted to develop models suited to investigate customer loyalty in a variety of contexts. In reviewing these models, it has been established that service quality, customer satisfaction, perceived value, trust and commitment are the most critical variables in creating and maintaining customer loyalty (Kim and Cha, 2002; Liang and Wang, 2005; Palmatier et al., 2006).

However, there is little agreement about which determinants explain the most effective way of creating and maintaining customer loyalty. Whilst there are a number of variables that could be useful as determinants of customer loyalty, researchers have considered service quality, customer satisfaction and perceived value as the cornerstones in relational exchange between service providers and customers (Liang and Wang, 2005; Palmatier et al., 2006; Wang et al., 2006). Despite the recognition that service quality, customer satisfaction and value are important determinants of customer loyalty, critical research gaps remain regarding their combined effect (in a single model) on customer loyalty in commercial banking. Most of the previous studies focused on the single determinants of customer loyalty such as the service quality, satisfaction, perceived value, trust, retention, customer loyalty programs, social capital, demographic variables as well as customer service in service firms.

Objectives of the study

This study, specifically sought to achieve the following objectives:

1. To investigate the relationship between service quality and customer loyalty in commercial banking.
2. To establish the relationship between perceived value and loyalty in commercial banking.
3. To establish the relationship between customer satisfaction and customer loyalty in commercial banking.
4. To establish the combined effect of service quality, customer satisfaction and customer value on customer loyalty.

Hypotheses of the study

The following four hypotheses (Figure 1) were tested:

H1: There is a significant relationship between service quality and customer loyalty
H2: There is a significant relationship between customer satisfaction and customer loyalty
H3: There is a significant relationship between perceived value and customer loyalty
H4: Customer loyalty is determined by service quality, perceived value, and customer satisfaction

LITERATURE REVIEW

CUSTOMER LOYALTY

Customer loyalty research has mainly centered on the loyalty consumers display towards tangible products that is often referred to as brand loyalty. Although, the concept of customer loyalty to tangible goods (brand loyalty) has been studied extensively by marketing scholars, relatively little empirical research has examined loyalty to service organizations (service loyalty). Significant gaps exist in marketing literature in explaining what leads customers to become loyal to service organizations.

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. It can also 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 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

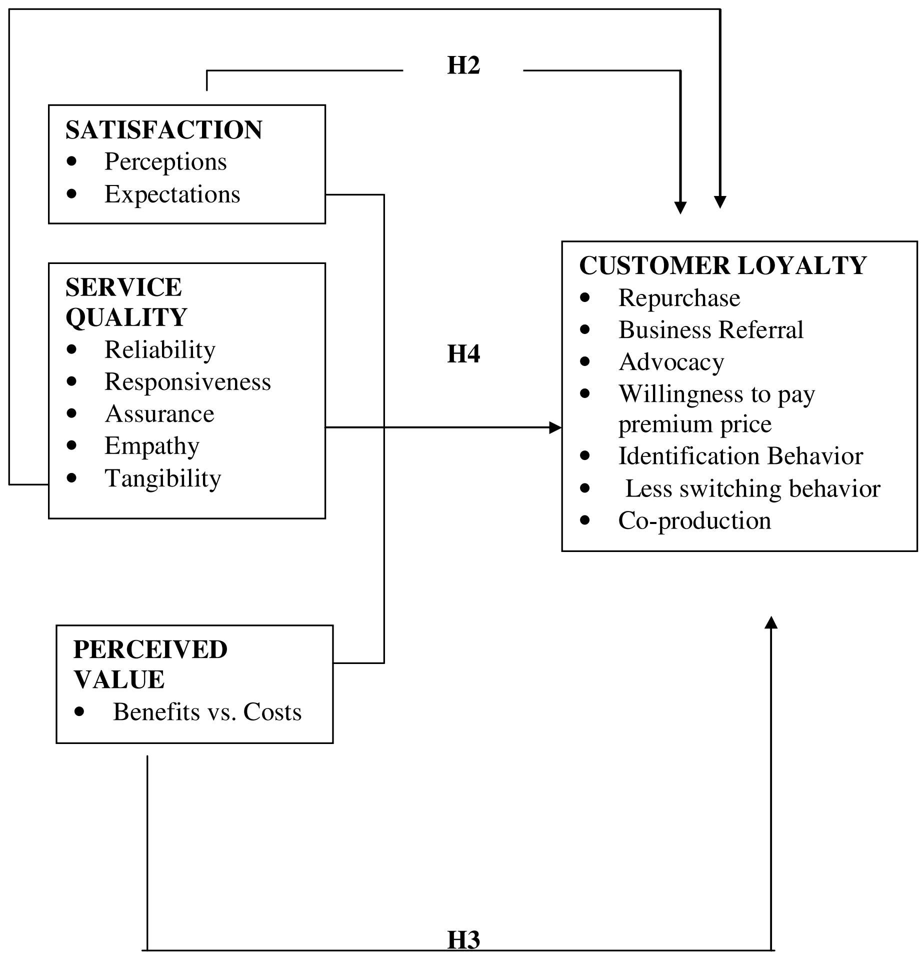

Figure 1. Service quality, customer satisfaction, value, and loyalty model (Researcher).

customer's demonstration of faithful adherence to an organization despite the 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.

There are several factors that attempt to explain customer loyalty in service organizations but this study specifically focused on service quality, satisfaction and value. These antecedents were included in the conceptual model in order to assess how they affect customer's loyalty towards service providers.

Cronin et al. (2000) point out that when service quality, satisfaction and value are investigated separately as drivers of loyalty outcome behaviors, they consistently have a statistically significant effect on loyalty. Little has been studied on the simultaneous effects of service quality, satisfaction and value on customer behavioral loyalty. This study extended the marketing theory relative to service quality, value and satisfaction as antecedents of customer loyalty in service organizations.

SERVICE QUALITY

Service quality is the consumer's appraisal of a service's overall quality. 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 (Rust and Oliver, 1994). This appraisal typically forms from disconfirmation of expectations of service performance (Parasuraman et al., 1988) or through assessing performance measures (Cronin and Taylor, 1992). The contention between the two approaches centres 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 2000). 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 (Boston and 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 et al., 1996). This study will adopt the SERVIQUAL model and will therefore be disconfirmation- based.

In terms of the link between service quality and loyalty –related outcomes, empirical evidence abounds in the literature (Parasuraman et al.., 1991; Taylor and Baker, 1994). These studies find a positive relationship between service quality and the customers' willingness to recommend a service firm, advocacy, repurchase intentions, increasing purchasing, willingness to pay premium prices, word of mouth communication and resistance to better alternatives. These represent behavioral outcomes of customer loyalty. Thus, improving service quality may satisfy customers and enhance their loyalty and conversely, negative perceptions of service quality may lead to customer defections (Zeithaml et al., 1996). Their study showed that positive and negative behavioral intentions are related to perceived service quality. Hence, the literature strongly supports the modeling of service quality as a direct antecedent of loyalty.

However, some studies have found that customers might switch brands or service providers despite perceiving good service quality. This infers the presence of loyalty determinants other than service quality. Therefore, spending on service quality alone does not guarantee the retention of loyal customers.

CUSTOMER SATISFACTION

Customer satisfaction and service quality are the most frequently explored antecedents of customer loyalty. The services literature is replete with examples of the attention directed to the study of satisfaction and typically identifies a positive relationship between satisfaction and loyalty-related outcomes ((Rust and Oliver, 1994).

Satisfaction is the customer's post-purchase evaluation and affective (emotional) response to the overall product or service experience. It is a measure of how customer's needs, wishes, desires or expectations have been met or exceeded. Like customer loyalty, it is a behavior that customers explicitly vocalize or exhibit. It is a strong indicator for behavioral variables such as repurchase intentions, word- of- mouth communications and loyalty. However, several studies indicate, customer satisfaction is no guarantee for customer loyalty.

Oliver (1999) considers customer satisfaction as "a pleasurable fulfillment" of needs, desires, and goals. However, recent studies conceptualize satisfaction as a cumulative evaluation as opposed to the early transaction- specific view. This view suggests that a single dissatisfying event is often not enough to engender switching behavior, and a single satisfying purchase is also not likely to result in a long-term loyal customer. The link between satisfaction and loyalty suggests that cumulative satisfaction is directly and positively related to customer loyalty.

Empirical studies show that satisfied customers tend to be more loyal than less satisfied ones and are therefore crucial to the firm's profitability (Reichheld and Sasser 1990). Conversely, dissatisfaction may lead to customers defections. Satisfaction thus relates positively to customer loyalty and dissatisfaction may result in customer defections. Bowen and Chen (2001) say that maintaining satisfied customers alone is not sufficient, there has to be extremely satisfied customers to ensure loyalty. However, customer satisfaction in itself will not translate into customer loyalty but can foster loyalty to the extent that it is prerequisite for maintaining a favorable relative attitude, recommending others and repurchasing from a firm. Once customers recommend a firm, it fosters re-patronage and loyalty towards the firm.

PERCEIVED VALUE

Service quality and customer satisfaction alone cannot sustain competitive advantage because customer requirements are fast changing and firms have to reorient themselves to focus on delivering superior customer value (Parasuraman, 1997). Favourable customer value can lead to positive behaviors such as loyalty that will be demonstrated by word of mouth, increased purchase, willingness to pay more for products and recommending others to the firm (Zeithaml, 2000).

Perceived value can be defined as the customer's overall assessment of the utility of a product based on perceptions of what is received and what is given (Zeithaml, 2000). This conceptualization suggests that customers have a "give and get" mentality when it comes to perceptions of value. Zeithaml's (2000) seminal research further alludes to service value as being the difference between the benefits received from using a service and the monetary and nonmonetary cost of receiving the service. Perceived value is thus viewed as a summary evaluation of costs versus benefits. This means that customer value resembles equity, where perceived value increases positively if the imbalance favors benefits and negatively if the imbalance favors cost. Likewise, perceived value is the degree to which perceived benefits exceed sacrifices when purchasing a product (Mazumdar, 1993).

Bolton and Drew (1991) find a link between perceived and behavioral intentions that ultimately trigger service loyalty outcome behaviors such as more spending. Perceived value is a more viable element than customer satisfaction because it includes not only the usual benefits that most banks focus on but also a consideration of the price that a customer pays. Perceived value must be properly managed but customer satisfaction is merely a response to the value proposition offered in specific products (Reichheld, 1996). Perceived value may be key to enhancing customer loyalty (Lam et al., 2005). However, studies have not focused on how customers define value and how organizations can provide added value services

THEORETICAL FOUNDATION

A theoretical basis that explained the relationship between customer loyalty and service quality, customer satisfaction and value was drawn from the social exchange theory. The theory attempts to explain the nature of the relationships between service quality, perceived value, satisfaction and loyalty. The theoretical model adopted for this study was derived from the social exchange theory (Homans, 1958), which posits that all human relationships are formed by the use of cost-benefit analysis and comparisons of alternatives. Homans suggested that when an individual perceives the cost of a relationship outweighs the perceived benefits, then the person will choose to leave the relationship. The theory further states that persons that give much to others try to get much from them, and persons that get much from others are under pressure to give much to them. The social exchange relationships between two parties develop through a series of mutual exchanges that yield a pattern of reciprocal obligations to each party.

Social exchange theory indicates that individuals are willing to maintain relationships because of the expectation that to do so will be rewarding. Individuals voluntarily sacrifice their self- benefits and contribute these benefits to other individuals with the expectation for more future gains. Thibaut and Kelly (1959) propose that whether an individual retains a relationship with another one depends on the comparison of current relationship, past experience and potential alternatives. The constant comparison of social and economic outcomes between a series of interactions with current partners and available alternatives determines the degree of an individual's commitment to the current relationship.

The theory was appropriate for this study because service encounters can be viewed as social exchanges with the interaction between service provider and customer being a crucial component of satisfaction and providing a strong reason for continuing a relationship (Barnes, 2007). Social exchange theory attempts to account for the development, growth and even dissolution of social as well as business relationships. In other words, people (or business firms) evaluate their reward - cost ratio when deciding whether or not to maintain a relationship. Rewards and costs have been defined in terms of interpersonal (e.g. liking, familiarity, influence), personal (gratification linked to self esteem, ego, personality) and situational factors (aspects of the psychological environment such as a relationship formed to accomplish some task). In a services context, considering the level of interpersonal contact needed to produce services, there is a range of psychological, relational and financial considerations that might act as a disincentive for a hypothetic change of service providers.

CONCEPTUAL FRAMEWORK

The model provided in Figure 1 shows the inter-relationships of the constructs considered in this study. The hypothesized relationships illustrated in the model show that customer loyalty is the dependent variable while service quality, satisfaction and value were the independent variables. The framework demonstrates that customer loyalty was directly influenced by service quality, customer satisfaction and customer value.

Loyalty, which was the dependent variable, was hypothesized as leading to customer behaviors such as identification, advocacy or word of mouth (WOM), willingness to spend more and pay premium price, co-

Table 1. Sample size determination.

Sector	Number of customers (Population size)	Sample size
Public sector		
Kenya Commercial Bank	8,000	64
Co-operative Bank	10,000	79
Private domestic sector		
Equity Bank	20,000	158
Trans-National Bank	1000	8
Foreign Banks		
Standard Chartered Bank	4,0000	32
Barclays Bank	5,0000	40
Total	48,000	381

production, citizenship behavior, repurchase, business referrals, mentoring other customers, and less switching behavior that in turn lead to greater levels of productivity, productivity and competitive advantage.

Service quality was hypothesized in terms of reliability, responsiveness, empathy, assurance and tangibility. Service quality leads to customer value and satisfaction which in turn results in customer loyalty to the firm. Customer satisfaction was operationized in terms of customers' perceptions of how their expectations of service delivery have been fulfilled. Customers with cumulative satisfied experiences tend to remain affectively loyal to relationship (Oliver, 1999). Satisfaction has a significant direct relationship with customer loyalty. Kim (2004) found a positive relationship of customer satisfaction and loyalty in mobile telecommunication services.

MATERIALS AND METHODS

A simple randomized ex-post facto design was adopted to investigate and analyze the research problem. 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 been successfully used in the past (Masinde, 1986; Mwendwa, 1987).

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 to investigate 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 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 (Table 1) for the study was obtained using the following formula:

S = (P (1-P)) / (A2)

S = (Z2 + (P (1-P))) / (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 (0.05 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 = (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 used because it ensured representative and reliable coverage of all elements being considered in the study. The data were collected using a questionnaire over a period covering one month to ensure inclusiveness of customers who come to the bank on different dates of the month.

The questionnaires were administered in January 2011 during working hours from 9 a.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.

Instrumentation

Data was collected using a questionnaire. The instrument was used to collect data on demographic variables such as age, gender, education, marital status, occupation and income, and to measure the levels of service quality, satisfaction, value, customer social capital and loyalty of the respondents. The questionnaires were administered in January 2011 during working hours from 9 a.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 of 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, value, customer social capital and loyalty.

Customer loyalty (dependent variable) items were selected based on observable behavior characteristics that included re-purchase, 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. McMillan (1992) views validity as 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 0.70 of Cronbach’s alpha was tested for internal consistency for each of the constructs as recommended. The overall reliability test using Cronbach’s test had an alpha coefficient of 0.911 and internal reliability test results were for service quality (0.918), perceived value (0.662) and customer satisfaction (0.751), all of which were high enough to ensure the internal consistency of the three factor solution even though that of customer value was slightly lower than the recommended 0.7 threshold (Hair et al., 2006).

Operationalization of the study variables

The constructs identified in this research that included service quality, satisfaction, perceived value and loyalty were measured as indicated below.

The independent variables were service quality, satisfaction and perceived value. 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 and Parasuraman (1991). They were reliability, responsiveness, assurance, tangibility and empathy. Thus, the service quality measurement adopted the SERVQUAL model developed by Parasuraman et al. (1988).

Perceived value was measured in terms of the trade-off between the costs (monetary and nonmonetary) and benefits customers derived from their bank. Satisfaction measurement was based on the evaluation of how much customer expectations were being met by the bank (that is in terms of pre-purchase expectations versus post purchase perceptions of service delivery).

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.

Multicollinearity test

A test of multicollinearity was conducted to determine the correlation of the independent variables. Multicollinearity refers to the extent to which an independent variable can be explained by other independent variables in the analysis and if too high this can have harmful effect on multiple regression. Multicollinearity occurs when two or more predictors in the model are correlated and provide redundant information about the response. It is a situation where the variables are too highly correlated.

The diagnostics variance inflation factor (VIF) and tolerance were used to test multicollinearity of the independent variables. Multi-collinearity is present when the VIF for at least one of the independent variable is large. The rule of thumb is VIF > 10 is of concern or tolerance of 0.1 or less. The condition number (index) is another criterion *a* for multicollinearity test in which a condition index of greater than 30 (CN > 30) for a dimension and at least two variance proportions indicate severe collinearity.

Multicollinearity was not a problem in the regression model as none of the independent variables had a VIF value of greater than10 (the respective VIF values were service quality = 1.193, value = 1.193 and satisfaction = 1.266), tolerance value were greater than 0.1 (service quality = 0.838, value = and satisfaction = 0.790) and the conditioning index for all the independent variables was below 30 (service quality = 4.573, value = 5.910 and satisfaction = 6.698).

RESULTS AND DISCUSSION

Preliminary results

With the initial descriptive analysis, the results showed that all the 381 respondents in the sample provided their responses. The response rate was 100% since the method of data collection involved giving the respondent questionnaire and waiting for it to be filled out before moving to the next respondent. Most respondents (57.0%) were male and majority of the respondents (44.0%) were below 30 years. In terms of educational background, 64.2% of the respondents had a university degree. In addition, most of the respondents (49.3%) were married while majority (40.2%) was businesspeople. As for income distribution, most of the respondents earned less than Ksh 25,000 and 55.5 % were Protestants.

The effect of service quality on customer loyalty

Service quality was hypothesized as having an effect on

Table 2. Correlations between service quality, customer value, customer satisfactions and customer loyalty.

		SERVINDEX	VALUEINDEX	LOYINDEX	SATINDEX
SERVINDEX	Pearson correlation	1	0.580**	0.445**	0.698**
	Sig. (2-tailed)		0.000	0.000	0.000
	N	384	384	384	384
VALUEINDEX	Pearson correlation	0.580**	1	0.395**	0.539**
	Sig. (2-tailed)	0.000		0.000	0.000
	N	384	384	384	384
LOYINDEX	Pearson correlation	0.445**	0.395**	1	0.486**
	Sig. (2-tailed)	0.000	0.000		0.000
	N	384	384	384	384
SATINDEX	Pearson correlation	0.698**	0.539**	0.486**	1
	Sig. (2-tailed)	0.000	0.000	0.000	
	N	384	384	384	384

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

Table 3. Regression result for service quality and customer loyalty.

Model	R	R square	Adjusted R square	Std. error of the estimate
1	0.445[a]	0.198	0.196	3.40762

[a]Predictors: (Constant), SERVINDEX.

customer loyalty in commercial banking. An index for service quality was calculated to represent all the items that were used to measure this construct. The customer loyalty index and the service quality index were used to test the relationship between the two constructs. Correlation analysis and regression analysis were used to test the relationship between service quality and customer loyalty which was hypothesized as:

Ho: Service quality has no statistically significant relationship with customer loyalty

The result of Pearson correlation analysis provided in Table 2 shows that service quality is significantly, positively correlated to loyalty. The result shows a coefficient of 0.445 at p = 0.01 (r = 0.445, p< 0.01) which shows that the two constructs, service quality and 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 study of the relationship between service quality and customer loyalty was further analyzed through a simple linear regression model which was used to observe the effect of service quality in predicting the variations in customer loyalty. The following model, customer loyalty (CL) was the dependent variable and service quality (SQ) was the independent variable:

Customer loyalty (CL) = b0 + b1 (SQ) + ε

Where: CL = customer loyalty, b0 = Intercept or constant, b1 = Slope, SQ = Service quality, ε = Error or random term.

The results for the model are shown in Table 3 and indicated that service quality and customer loyalty were positively and significantly associated 0.05 (p<0.05). A statistical significance (F-value = 94.20; p= 0.0001) was determined. R^2 was 0.198 or 19.8% which was significant at 0.001 level .This implied that service quality explained about 19.8% of the variation in customer loyalty. This study established that customer loyalty to commercial banks was dependent on service quality.

The results are consistent with studies that suggest that service quality might has a direct impact on customer loyalty (Parasuraman et al., 1991). Cronin and Taylor (1994) hypothesize that perceived service quality positively affects consumers' loyalty. Reichheld and Sasser (1990) and Cronin et al. (2000) 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. They further established that service quality results in repeated sales and increased market share, which leads to customer loyalty. 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.

The findings further support previous studies on the direct link between service quality and customer loyalty (Bolton and Drew, 1991). Service quality has been found to have considerable impact in determining repeat purchase and customer loyalty (Jones and Farquhar, 2003). They pointed out that 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 that of Cronin et al. (2000) and Choi et al. (2004). They established that a positive perception of service quality is an antecedent to customer loyalty. They further found that that evaluative judgments of service quality could significantly influence service loyalty and bank loyalty.

A further analysis of the relative importance of the service quality dimensions was done using a regression model. The results revealed a statistical significance (F-value = 19.61; p = 0.0001, R^2 was 0.206 or 20.6% which was significant at 0.05 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 established that customer loyalty to bank will be strongly influenced by service quality. It can be observed from Table 4 (c) that using beta values to measure the variation in customer loyalty indicated that reliability ((β = 0.257) contributed to the highest variability followed by empathy ((β = 0.100), assurance ((β = 0.093), tangibility (β = 0.079) and responsiveness ((β = 0.021), respectively.

Ho: Customer satisfaction has no statistically significant relationship with customer loyalty

This implies that customers are concerned with the bank personnel's ability to deliver the service in a dependable and accurate manner. They were captured in the research instrument as bank honors 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).

The result of Pearson correlation analysis provided in Table 2 shows that service quality is significantly, positively correlated to loyalty. The matrix shows a coefficient of 0.486 which shows that the two constructs, satisfaction and loyalty are positively related. The result shows that there is a significant positive correlation between customer satisfaction and customer loyalty. The r-value of 0.486 (r = 0.486, p< 0.01) implies that relationship between customer satisfaction and customer loyalty is positive. The coefficient of determination (r^2) shows that the relationship is significant at 23.6%. Therefore, the hypothesis that there is no significant relationship between satisfaction between customer satisfaction and loyalty should be rejected

To further assess the effect of customer satisfaction on customer loyalty, a simple regression was used to observe the effect of customer in predicting the variations in customer loyalty. The model presented as follows show customer loyalty as the dependent variable and customer satisfaction (CS) as independent variable:

$$\text{Customer loyalty} = \beta o + \beta 1\ (CS) + \varepsilon$$

The results for the model are shown in Table 5 and indicated that customer satisfaction and customer loyalty were positively and significantly associated at 0.05 level (p < 0.05). A statistical significance (F-value = 118.12; p = 0.05) was determined. R^2 was 0.236 or 23.6% which was significant at 0.05 level. This implied that customer satisfaction explained about 23.6% of the variation in customer loyalty.

This finding concurs with Cheng et al. (2008) who found that there is a strong positive correlation between customer satisfaction and customer loyalty. Most of the researchers found that customer satisfaction is the predictor of customer loyalty (Leverin and Liljander, 2006; Terblanche and Boshoff 2006). They found that customer satisfaction and customer loyalty are positively correlated.

This finding is also consistent with several previous studies by Sirdeshmukh et al. (2002). Lam et al. (2005) find a positive relationship between customer and satisfaction and customer loyalty. Many studies have shown that customer satisfaction affects variables that are indicators of customer loyalty or orientation toward a long-term relationship (Mittal and Kamakura, 2001). A satisfied customer's affect toward a service provider could motivate the customer to patronize the provider again and recommend the provider to other customers. This study confirms that customer satisfaction has a positive effect on customer loyalty dimensions. The form of relationship between customer satisfaction and repeat patronage could be nonlinear.

Bowen and Chen (2001) also point out that a small

Table 4. Regression results for the service quality dimensions.

(a) Model summary

Model	R	R square	Adjusted R square	Std. error of the estimate
1	0.454[a]	0.206	0.195	3.40806

(b) ANOVA[b]

Model		Sum of squares	Df	Mean square	F	Sig.
1	Regression	1139.063	5	227.813	19.614	0.000[a]
	Residual	4390.429	378	11.615		
	Total	5529.491	383			

(c) Coefficients[c]

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.
		B	Std. error	Beta		
1	Constant	19.671	1.273	-	15.450	0.000
	Tangibility	0.074	0.056	0.079	1.324	0.186
	Assurance	0.171	0.116	0.093	1.481	0.139
	Empathy	0.191	0.115	0.100	1.663	0.097
	Reliabilty	0.230	0.063	0.257	3.668	0.000
	Responsiveness	0.023	0.080	0.021	0.292	0.770

[a]Predictors: (Constant), responsiveness, empathy, tangibility, assurance, reliability. [b]Dependent variable: LOYALTY. [c]Dependent Variable: LOYINDEX.

Table 5. Regression result for customer satisfaction and customer loyalty.

Model summary

Model	R	R square	Adjusted R square	Std. error of the estimate
1	.486[a]	.236	.234	3.32515

[a]Predictors: (Constant), SATINDEX.

increase of customer satisfaction leads to an increase in customer loyalty. This current study finds that customer satisfaction has a large positive correlation with customer loyalty in the retail banking sector in Nakuru Municipality. Kandampully and Suhartanto (2000) also concurred with the finding on the relationship between satisfaction and customer loyalty.

The strong positive correlation of customer satisfaction and customer loyalty means that the bank customers will recommend their bank to other people. As a consequence, the banks can be assured of a loyal and stable customer base, thereby reducing the cost. Loyal customers increase their spending at an increasing rate, purchase services at full fare rather than at discount, and create operating efficiencies (Keaveney, 1995), leading to a higher market share and improved profitability (Brady and Cronin, 2001). Customer satisfaction is an important antecedent for loyalty and it has been found to be the most important determinant of loyalty among on-line bank customers (Yi, 1990).

By increasing loyalty, customer satisfaction secures future revenues; reduces the cost of future transactions, decreases price elasticity; and minimizes the likelihood customers would defect if quality falters (Reichheld and Sasser, 1990). Ranaweera and Prabhu (2003) found that customer satisfaction is a significant determinant of repeat sales, positive word of mouth, and customer loyalty. The result of literature study found the behavior was highly relevant after serving quality and customer purchasing. It is by and large believed that satisfaction leads to repeat purchase and positive word-of-mouth recommendation, which are the main indicators of loyalty. If consumers are satisfied with the product or service, they are more likely to carry on purchasing, and are more willing to spread positive WOM. Ravald and Gronroos (1996) found that that customer satisfaction is a better predictor of customer loyalty than service quality.

The effect of perceived value on customer loyalty

The study expected that respondents from different

Table 6. Regression results for customer value and customer loyalty.

Model summary				
Model	R	R square	Adjusted R square	Std. error of the estimate
1	0.395[a]	0.156	0.154	3.49540

[a]Predictors: (Constant), VALUEINDEX.

banks were to demonstrate that the value received from the service transactions with their banks would influence their level of loyalty. This was based on the literature that loyalty of customers is affected by perceived fairness of the methods of setting fees and the comparison between the benefits they received versus the monetary and nonmonetary costs they incurred. Pearson correlation and regression were used to the test the relationship between customer value and customer loyalty. The relationship was hypothesized as follows.

Ho: There is no statistically significant relationship between perceived value and customer loyalty

The results of the correlation analysis given in Table 6 show a significant positive relationship between value and customer loyalty. A coefficient of 0.395 ($r = 0.395$, $p < 0.01$) shows that the relationship between the two constructs is positive. The coefficient of determination (r^2) shows the relationship to be significant at 15.6%. The hypothesis is therefore rejected since there is a positive correlation between customer value and customer loyalty in commercial banks .These findings show that there is a significant difference between customer value and customer loyalty, and that the results are not due to chance.

The study of the predictive ability of the effect of customer value on customer loyalty was also analyzed through a linear regression. This analysis was used to observe the effect of customer value in the prediction of the variations in customer loyalty. The model presented as follows shows customer loyalty as the dependent variable and customer value (CV) as the independent variable:

Customer loyalty = $\beta o + \beta 1\ (CV) + \varepsilon$

The results for the regression model are shown in Table 6 and indicated that service quality and customer loyalty were positively and significantly associated 0.05 ($p < 0.05$). A statistical significance (F-value = 70.56; $p = 0.05$ was determined. R^2 was 0.156 or 15.6% which was significant at 0.05 level. This implied that customer value explained about 15.6% of the variation in customer loyalty. The study established that there is a positive relationship between customer value and customer loyalty. This concurs with the finding by Reichheld and Teal (1996) that value creation is linked with customer loyalty. It also established that to measure loyalty, a company must determine the lifetime value of a customer. Lifetime value is the total return earned (after recruitment cost) over the length of time the customer stays with a company or balancing the long-term commitment against the period spent with the company.

These findings are also consistent with those of Park et al. (2006) which find that in deciding whether to return to service provider or not, a consumer always considers the extent to which he received 'value for money'. They concluded that customer perceived value is associated with the loyalty intention with regards to the services rendered by commercial banks. This means that loyalty is greatly dependent on customer value in the commercial banks. Hence, it was concluded that there is strong link between perceived value and future intention to stay with the bank.

Previous studies by Jamal and Kamal (2004) also established that the level of satisfaction is always high when the customer gives minimum price and gets maximum of usage and profit and that dissatisfaction usually occurs when the pricing issues are not suiting the needs of the customers. They found that when customers think that the charges are perceived to be higher, they churn or defect to other banks .If a customer is satisfied, then loyalty injects automatically and the customer remains with the current providers for a longer and longer period of time.

The effect of service quality perceived value and customer satisfaction on customer loyalty

This study sought to determine the relative effect of service quality, customer value and customer satisfaction on loyalty in the banking sector. Loyalty was the dependent variable while the other constructs were independent variables. The study expected that the three constructs of service quality, customer value and satisfaction jointly affect customer loyalty in commercial banking. The hypotheses used to test the relative contribution of each of the variables are presented as follows.

Table 7. Regression results for service quality, customer value, customer satisfaction and customer loyalty.

(a) Model summary

Model	R	R square	Adjusted R square	Std. error of the estimate
1	0.521[a]	0.271	0.265	3.25692

(b) Coefficient[b]

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.	Collinearity statistics	
		B	Std. error	Beta			Tolerance	VIF
1	Constant	17.609	1.180		14.923	0.000		
	SERVINDEX	0.044	0.019	0.148	2.282	0.023	0.454	2.202
	VALUEINDEX	0.365	0.139	0.145	2.617	0.009	0.628	1.592
	SATINDEX	0.279	0.058	0.304	4.843	0.000	0.486	2.060

(c) Collinearity diagnostic[c]

Model	Dimension	Eigen value	Condition Index	Variance proportion			
				(Constant)	SERVINDEX	VALUEINDEX	SATINDEX
1	1	3.957	1.000	0.00	0.00	0.00	0.00
	2	0.023	13.254	0.27	0.01	0.80	0.01
	3	0.013	17.350	0.61	0.04	0.17	0.46
	4	0.007	24.041	0.12	0.95	0.03	0.53

[a]Predictors: Constant, SATINDEX, VALUEINDEX, SERVINDEX. [b]Dependent variable: LOYINDEX. [c]Dependent variable: LOYINDEX.

Ho: ***There is no one significant factor that determines customer loyalty***

To verify the hypothesis on the composite effect of the three constructs (independent variables) on the dependent variable (loyalty) multiple regression model was used. The following regression model was used to test the relationship between the independent and dependent variables:

$$CL = \beta o + \beta 1SQ + \beta 2CS + \beta 3CV + e$$

Where: Bo = Intercept or constant; B1, β2 and β3 = Regression coefficients or slope of the regression line of the independent variables 1 to 3. They indicate the relationship between the independent variables and the dependent variable; CL= Customer loyalty; SQ = Service quality; CV= Customer value; CS = customer satisfaction; ε = Error or random term. It represents errors that could arise due to random behavior.

Regression coefficients were used to evaluate the strength of the relationship between the independent variables and the dependent variable. Beta coefficients of the independent variables were used to determine the relative importance to the dependent variable in the model. Therefore, regression coefficients were used to evaluate the strength of the relationship between the independent variables and the dependent variable. Chu (2002) claim 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. 0 is the constant, where the regression line intercepts the y axis and the error term represents the assumed random error will occur (Hair et al., 1998). The R^2 value in the model, provided a measure of the predictive ability of the model or measured the percentage of variance in the dependent variable explained collectively by all of the independent variables (Garson, 2008). The closer the value to 1, the better the regression equation fits the data. The F test was used to test the significance of the regression model as a whole.

In the results of the regression analysis, the standardized coefficients (β) of satisfaction, customer value and service quality show the relative importance of the three variables on customer loyalty. Satisfaction (β = 0.304) has the most influential effect on loyalty, followed by service quality (β = 0.148) and customer value (0.145) has the lowest coefficient. It is evident from these results that satisfaction had the greatest effect while value had the lowest effect on customer loyalty among the three constructs.

The results of the regression analysis as shown in Table 7 indicate that R^2 was 0.271 or 27.1%. This shows that the three variables of service quality, customer value and customer satisfaction explain only 27.1% of the factors that influence customer loyalty in banking. The statistical F test is used to determine how well the regression equation fits the data. In this study, the F value of 47.093 was significant at the 1% level, indicating that at least one of the independent variables helped to explain some of the variation in customer loyalty. Further, the adjusted coefficient of determination revealed that 26.5% of the variance in loyalty was explained by the regression model.

Thus, the R^2 in this regression model points to other factors not included in the model that account for loyalty in the bank. For instance, loyalty is affected by factors such as the bank's image, complaint management capabilities, the quality of communication between the firm and the customer, and trust (Ball et al., 2004), demographic factors such as age, gender, ethnicity, and income and prior experience with the service industry in general (Parasuraman et al., 1991; Gilbert and Veloutsou, 2004) which are beyond the scope of this study.

The test of inter-correlations among the three variables reveals that there is a positive correlation between service quality and customer loyalty ($r = 0.445$, $p < 0.01$), customer value and customer loyalty ($r = 0.395$, $p < 0.05$) and customer satisfaction and customer loyalty ($r = 0.486$, $p < 0.05$). The value of the coefficients supported the multiple regression results. They show that customer satisfaction had the greatest influence on customer loyalty followed by service and customer value had the lowest effect. Therefore, the hypothesis that no one significant factor influences customer loyalty is rejected.

Service quality and perceived value

This study also provided a framework for understanding the interrelationships between customer loyalty and the other constructs related to customer loyalty. In terms of the relationship between service quality and perceived value, the result of this study suggested that service quality had a direct impact on perceived value. The positive relationship that was identified between service quality and perceived value may be interpreted as the higher the service quality as perceived by bank customers, the more willing customers are to pay a higher price for their bank services and the higher the likelihood of maintaining sustained loyalty.

The positive correlation coefficient ($r = 0.580$) for the interaction between service quality and perceived value implied that the two had a likely positive impact on customer loyalty. This result indicates that customers may believe that customer loyalty will be high when banks provide high levels of service quality. If the bank service quality is high, customers will be willing to pay more. Moreover, if the cost that customers paid was not perceived to be high, this might contribute to a positive influence on customer satisfaction.

Customer satisfaction and perceived value

Although the study found that customer satisfaction has a stronger influence on customer loyalty than perceived value and service quality, it also established that perceived value and customer satisfaction are both important factors in determining customer loyalty. The positive correlation result ($r = 0.539$) of the interaction between customer value and customer satisfaction implied that both constructs have a positive effect on customer loyalty. This could also indicate that customer value plays a moderating role between service quality and customer satisfaction in influencing customer loyalty. The results of this research are consistent with those of Kandampully and Suhartanto (2000) which found that perceived value moderates the relationship between service quality and customer satisfaction in affecting customer loyalty. Caruana et al. (2000) also demonstrated that the service quality, perceived value and customer satisfaction constructs were increasingly playing a key role in services marketing and that these three constructs had a significant influence on customer loyalty and ultimately long-term profitability.

Service quality and customer satisfaction

This study has established that there is a link between service quality and customer satisfaction in creating customer loyalty in commercial banks. The interest in studying satisfaction and service quality as the antecedents of customer loyalty was stimulated by the recognition that customer satisfaction does not, on its own, produce customer loyalty (Appiah-Adu, 1999). Caruana et al. (2000) developed a mediational model that links the service quality and customer loyalty via customer satisfaction and applied this model in the retail banks.

The study has found that satisfaction and service quality are closely linked to customer loyalty. There are overwhelming arguments that it is more expensive to win new customers than to keep existing ones (Hormozi and Giles, 2004). This is in line with Athanassopoulos (2000) arguments that customer replacement costs, like advertising, promotion and sales expenses, are high and it takes time for new customers to become profitable.

The link between service delivery and customer satisfaction was established in the study results and commercial banks attempt to find effective ways to systematically measure and manage customer value, customer satisfaction and customer loyalty. Customer care and customer loyalty programms should take into consideration that the provision of convenient, easy and fast banking services is closely associated with the customers' perceptions of how these bank services are delivered to them. These perceptual outcomes will, in turn, affect the level of bank customer satisfaction ratings, retention and switching rates. The current study suggests that in general customers in Kenya are satisfied with services provided by retail banks. This may be interpreted as service quality being an antecedent of customer satisfaction because service quality is the driver of the bank performance.

Conclusions

The research findings suggest that the drive towards ease of banking and convenience is favored by the customer and, therefore, banks should find alternative strategic routes designed to improve service delivery (either human-based or technology-based). Bank customers' attitudes towards the provision of services and subsequent levels of perceived value and customer satisfaction will impact on bank customer loyalty. Most bank products are easy to duplicate and when banks provide nearly identical services, they can only distinguish themselves based on price and quality. Therefore, customer loyalty is an effective tool that banks can use to gain a strategic advantage and survive in today's banking competitive environment. It is more economical to keep customers than to acquire new ones. The key factors affecting customers' intention in staying with a bank include the range of services, rates, fees and prices charged (Abratt and Russell, 1999).

The study established that there is a positive relationship among the three variables in the model under consideration, that is, service quality, customer value, customer satisfaction and customer loyalty. This finding was supported by Kumar et al. (2009) who stated that high quality of service will result in high customer satisfaction which in turn increases customer loyalty. Heskett et al. (1994) also argued that profit and growth are stimulated primarily by customer loyalty and loyalty is a direct result of customer satisfaction. They found that customer satisfaction is the outcome of service quality and perceived value.

Customer loyalty

The results from this study indicated that service quality, perceived value and customer satisfaction are jointly contributed to customer loyalty. Increase in customer loyalty implied greater positive word of mouth (Appiah-Adu, 1999), decrease price sensitivity and future transaction costs (Reichheld and Sasser, 1990) and, finally, leading to better business performance (Ryals, 2005; Choi et al., 2004). The positive relationship that was identified between perceived value, service quality, customer satisfaction and customer loyalty may be interpreted as customer loyalty being increased as a result of experiencing a high quality of service when customers have high customer satisfaction and high perceptions of value.

The results of this study indicated that perceived value, service quality, and customer satisfaction directly influenced customer loyalty. This may be interpreted as increased service quality leading to customer satisfaction and customer value that consequently contribute to customer loyalty. In addition, the analyses indicated that service quality also had an impact on customer satisfaction. This may be interpreted as service quality being an antecedent of customer satisfaction because service quality is the driver of the hotel performance.

Service quality and customer loyalty

The analyses indicated that service quality has a direct effect on bank customer loyalty. This implies that bank management should measure service quality and try to identify those areas that need improvement in order to gain a competitive advantage. Therefore, this study made an attempt to compare different methods that help bank managers to decide upon those service quality aspects that need improvement. In this respect, efforts should be made for example to simplify the procedures and to open all counters in a unit when necessary. For instance, decreasing waiting time may positively affect customers' satisfaction and meeting customers' requirements could be the key to a competitive advantage

Customer satisfaction and customer loyalty

The results indicated that customer satisfaction directly influenced customer loyalty. The positive relationship identified between customer satisfaction and customer loyalty may be interpreted as satisfied customers having favorable behavioral intentions to revisit or continue using the same bank after receiving high service quality that produces a good high perceived value. According to Brady et al. (2001), researchers and practitioners should identify customer satisfaction as a means of driving customer loyalty. This implies that satisfied customers are likely to engage in positive word –of- mouth and to continue doing business with the same bank.

This link is very strong, and it shows that if the bank managers want to make the customers loyal, they should have some special strategies to satisfy the customer. A satisfied customer never takes the risk of moving to other competitors (Brady et al., 2001). Customer satisfaction is important to marketers because it is usually assumed to be a significant determinant of recurring sales, positive word-of-mouth, intention to repurchase, and customer loyalty. This finding has been supported by Mouri (2005).

Perceived value and customer loyalty

The study found that the extent to which customers perceive the fees charged as reasonable, fair and not expensive as well as giving good value for their money contributes to creating favaourable perceived value. This implies that banks need to demystify their bank statements so that customers can see exactly what they are being charged for. This is likely to raise their perceived notion and consequently lead to customer loyalty. This study also found that the level of satisfaction increases when perceived value increases through perceived fair prices

Customers have found that it easy to new open accounts and that the switching cost from one bank to another is minimal. This means that customers can easily switch from their current banks to other banks. If a customer gets value for their money, then he/she will become satisfied and this injects loyalty automatically and the customer remains with the current providers for a longer and longer period of time.

Cohen et al. (2007) found that a loyal customer takes less of the company's time during transactions and are less sensitive to price changes. They stated that companies with the highest customer loyalty typically grew revenues at more than twice the rate of their competitors. Therefore the current research model will contribute in the retail banking sector in Kenya by using a loyal customer base.

MANAGERIAL IMPLICATIONS

Based on the study findings and their conclusions, a number of recommendations focusing on improving customer loyalty in commercial banks can be made. The study has the following managerial implications.

Customer loyalty

Bank management should implement customer loyalty improvement program in order to create and maintain long-lasting relationships with customer so as to have competitive advantage and to improve profitability. They should pursue customer loyalty as a marketing strategy which requires long-term commitment and understanding of service quality, customer value and satisfaction from the customer's perspective on the total bank experience.

Bank management should adopt the loyalty multi-dimensional model consisting of the three constructs of service quality, customer value and customer satisfaction. The study established that the three have a joint positive effect on customer loyalty. Therefore, the current research model (multi-dimensional model consisting of service quality, customer value and customer satisfaction) will contribute to improved bank performance in the retail banking sector in Kenya by using a loyal customer base. Thus, the results of this study present a new framework for thinking about banking service quality and its relationship to customer satisfaction and customer loyalty, which is valuable to managers seeking to create and maintain their competitiveness in the marketplace.

Second, bank management needs to know that loyal customers take less of the company's time during transactions and are less sensitive to price changes (Cohen et al., 2007) and that companies with the highest customer loyalty typically grow revenues at more than twice the rate of their competitors (Reichheld, 2006). Therefore, managers must try to maintain long term relationship with their customers.

Third, the study findings not only contribute directly to the body of knowledge about the relationships among service quality, customer satisfaction and customer loyalty, but also contribute indirectly to the service marketing theories. This study significantly contributes to the literature in terms of the relationship between service quality and customer satisfaction, between customer satisfaction and customer loyalty and the indirect and positive relationship between service quality and customer loyalty.

Fourth, an understanding of the relationships among the constructs tested in this model can be helpful to service managers seeking to provide quality service which influences the customer's perceived value, overall satisfaction, and ultimately loyalty. For example, the results of this study indicate that service quality has an impact on customer loyalty through customer satisfaction. Thus, managers could use these findings to emphasize superior service quality which will lead to customer satisfaction and then be loyal to their particular services.

Service quality

First, the study established that there is a direct relationship between delivery of service quality and customer loyalty. The results can help bank managers to decide upon those service quality dimensions that need improvement. Bank management should pay attention to all service quality dimensions of assurance, reliability, responsiveness, convenience and empathy. In this respect, efforts should be made for example to simplify the procedures and to open all counters in a unit when necessary. Thus, the waiting time decreases which will positively affect customers' level of satisfaction.

Second, 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 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 delivery of service quality. Today's customers have more choices for their financial needs than ever before. Service quality is an imperative factor impacting customers' satisfaction level in the banking industry.

Third, 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. This will result in high customer satisfaction, retention and loyalty (Reichheld and Teal, 1996; Caruana, 2002) within the Kenya Commercial Banking industry.

Fourth, commercial bank management has to make sure that things are done right the first time and ensure that the promises made to customers are kept in terms of service delivery. Also, the bank management has to make sure that the employees are properly trained to be not only courteous, pay attention and willing to help customers, but also become experts in their field so that they understand specific customer needs. Commercial Banks need to emphasize service quality by introducing standards for service excellence. Our 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.

Fifth, the findings indicate that while service quality is an important driver of customer loyalty, its indirect effect through perceived value and customer satisfaction is overwhelmingly larger than the direct effect in generating higher customer loyalty. It is important for the bank managers to understand the relevant service quality dimensions in banking that could reinforce positive perceived value and customer satisfaction assessments. Bank managers need to develop systematic assessment programs to monitor service quality, perceived value and customer satisfaction overtime. Bank staff should be kept informed of results and be encouraged to take part in formulating an effective loyalty strategy.

Customer satisfaction

First, the results of this study showed a strong link between customer satisfaction and loyalty which implies that if bank managers want to make the customers loyal, they should have some special strategies to satisfy their customers. The managers should regularly conduct customer surveys and should incorporate feedback in the changes desired by the customers. The banks can provide training programs for their employees in order to make them more effective while dealing with the customers, especially in handling customer complaints. This can help to improve satisfaction and customer retention by reducing defections of dissatisfied customers.

Second, the study found that customer satisfaction is not the sole determinant of customer loyalty in retail banking. Our study shows that although there is a direct positive relationship between satisfaction and loyalty, other determinants play an important role too. Thus, bank managers should not only focus on customer satisfaction and overlook other important drivers of customer loyalty such as service quality and perceived value.

Third, in order to achieve customer satisfaction, bank managers need to understand what customers want and how they assess service quality. This study used a number of items to measure customer satisfaction which could provide several hints to bank manager in terms of how to deliver the desired customer satisfaction. Customer loyalty can be achieved when customer's stated and unstated needs are fulfilled by the managers of the banks. The unstated needs can be the future needs of the customers. The point is, the managers should not only think of few basic needs of the customers. They should focus on providing extra pleasures to their customers.

Perceived value

First, the study established that the extent to which customers perceive the fees charged as reasonable, fair, but not expensive helped to determine the worth of the money paid for the service rendered. This is instrumental in contributing to creating perceived value. Banks must demystify their bank statements so that customers can see exactly what they are being charged for.

Second, this study found that the level of customer satisfaction and customer loyalty are always high when the customer gives minimum price and gets maximum usage of the product. Dissatisfaction usually occurs when the pricing issues are not suiting the needs of the customers. In the banking industry, the interest rates on loans and charges on the usage of online services such as ATM machines and the processing fee is a major bone of contention between the bank and its customers. Banks should simplify their billing system so that bank customers would find it easier to understand how they are being charged for their services. Thus, if customers perceive to be getting value for their money, they will be satisfied and will have no reason to switch from one bank to another.

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