

The Effect of Quality of Service on Customers' Loyalty to Financial Institutions: A Survey of Financial Institutions in Nyahururu Town, Kenya

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Abstract
The financial institutions in Nyahururu have experienced a scenario in which customers shift loyalty to different institutions over time, a situation that has led to managers' complaints on matters of customers' retention. This study aimed at examining the factors that influence customer loyalty to financial institutions in Nyahururu town. The study objective was to examine the effect of quality of service on customers' loyalty to financial institutions. The study was based on the Loyalty Business Model as advocated for by Strorback, Strandvik, & Gronroos, (1994) and customer loyalty theory by Reynolds (2015). Descriptive survey design was applied with a target a population of 28860 staff members and customers served by the 6 Micro-Finance institutions in Nyahururu, Kenya. A stratified sampling method was applied to obtain 384 staff members and customers from 6 Micro-finance institutions in Nyahururu Town. Primary data was collected through the use of questionnaires. The data collected was sorted and then coded before analysis. Data was analyzed quantitatively and qualitatively. In descriptive data analysis, mean, standard deviation and percentages were used. The SPSS computer program was used to aid in analysis. Multiple linear regression and correlation model was also used to analyze data by establishing the interrelationships between independent and dependent variable. Implementing the recommendations from the study would be useful to financial institutions seeking to improve the customer loyalty. This research study has also contributed to the body of knowledge on the best practices of retaining customers within financial institutions.
Keywords: Customer's loyalty, Customer Loyalty, Customer's retention, Financial Institutions, quality of service

1. The Background and Literature review

Top performing financial institutions believe that customers are the reason for their existence. To a financial institution, the capacity to gain new customers and also to retain them is central to their ability to generate profits. 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 & Cha, 2002) . Today's competitive environment seeks to maximize customer retention in order to sustain the company's protective edge against new entrants. Customer retention has a direct impact on long term customer lifetime value, which is a more profitable avenue for firms that seek to pursue growth and sustainability or those that seek to protect themselves from market shrinkage resulting from a contracting economy (Gee, Coates, & Nicholon, 2008). Supporting this argument, Lombard (2009), notes that today the pressure on companies to retain customers is fuelled by the market where customer acquisition is slow. Customer retention is important when loyalty is decreasing and sales cycles are aggravating the business environment. Under these circumstances, losing an important customer to a competitor would impact significantly on the organization's profitability and growth.

1.1 The Role of Loyal Customers

Customer loyalty is a deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite situational influences and marketing effort having the potential to cause switching behavior (Beryl & Broduer, 2007). Loyal customers believe the products and services purchased from their supplier are superior to those of the competition. Frequently, there are customers who view their interactions as more than simply transactional. They believe there is a relationship that is bigger than just the products or services they buy. Measuring loyalty means measuring the strength of this relationship between buyer and seller, between the organization and its customer. It is challenging to measure the level of customer loyalty within the relationship, which is why companies so often succumb to simply defining loyalty as the number of purchases made or a continuing pattern of buy behavior. Asking the customer directly about whether or not they are 'loyal' does not provide a valid measure. Customers often said they were loyal – simultaneously– to multiple providers (Ranade, 2012).

1.2 Competitive Advantage

In current highly competitive corporate environment it has become increasingly important to not only become the market leader but also to maintain that top position (Zeithem & Bitner, 1996). Researchers all over the globe claim that offering quality services give a sustainable competitive advantage to any business. It enables them to fulfill not only the present needs of their customers satisfactorily but also to anticipate their future needs. This ability to anticipate the future needs of customers allows them to delight their customers through quality services on consistent basis (Kim & Cha, 2002).

2. Performance enhancement, customer retention and profitability

Sustaining customer loyalty to a financial Institution is not a simple and straight forward task. Among other factors, this is influenced by the fact that most financial institutions' products are developed in an easy to duplicate process. This results in financial institutions providing nearly identical services that can only be distinguished on the basis of price and quality. Subsequently, customer loyalty is widely accepted as worth nurturing and six factors play key roles in influencing the loyalty and commitment of customers. They include, core offering, satisfaction, elasticity level, market place and demographics (Clerk, 2007). Winning the loyalty of customers should be the top priority of business organizations. But making this happen isn't as easy—or as clear cut—as the intention itself. For example, as consumers live more and more of their lives online, the role of mobile in financial services is shifting along with it. Just a few years ago, going mobile was a way to surprise and delight tech-savvy credit union members. Today, mobile engagement is fast becoming the only way to serve mobile-driven consumers and this directly affects the effectiveness of traditional methods that organizations have been using in winning and maintaining customers. Any customer retention mechanism (CRM) is potentially a critical tool that any financial institution needs in order to gain a strategic advantage and survival in today's ever-increasing banking competitive environment (Cohen, Gan, Hwa, Chong, & Ester, 1997).

2.1 Customer's Loyalty

In the academic literature conceptualization of customer loyalty has received remarkable consideration because experts have observed the involved relationship with a firm's profitability. Therefore customer loyalty is now acknowledged as a crucial element in strategic decision making because attracting new customers is more costly than retaining old ones. Smart financial Institution managers strive to have a faction of loyal and satisfied customers, as they buy and spend more (Babakus & Yavas, 2008) (. The customer loyalty notion was operationalized into measurable metrics by (Best, 2005) . He articulated customer loyalty as an indicator calculated as: customer loyalty score (CLS) = customer satisfaction x customer recommendation x customer retention. He argued customer loyalty metric must include the elements of customer satisfaction, customer retention as well as customer recommendation to potential customers (Best, 2005) .

2.2 Financial Institutions and Modern Competition

In the changing banking scenario of the 21st century, financial institutions have to build a strong identity to provide world-class services. The financial institutions have to be of high standard, committed to excellence in customers, shareholders and employees' satisfaction, and to play a leading role in the expanding and diversifying of financial sector (Balachandran, 2005). There has been a tremendous change in the way of banking between the year 2005 and 2009 and customers have also rightly demanded world class quality services from the banks. With multiple choices available, customers are not willing to put up with anything less than the best. Financial institutions have recognized the need to meet customers' aspirations as different customers have different personalities, so it is an urgent drive for the financial institutions to establish the determinants of customer loyalty in the banking sector in order to enhance customer loyalty and retention.

Most research on customer loyalty has focused on brand loyalty; on the other hand, a limited number of researches on customer loyalty have focused on service loyalty. It is argued that the findings in the field of brand loyalty did not generalize to service loyalty for the following reasons: service loyalty is dependent on the development of interpersonal relationships as opposed to loyalty with tangible products, in case of services, the influence of perceived risk is greater and intangible attributes such as confidence and reliability are the important factors to maintain the customer loyalty in the service context (Dick & Basu, 2004) .

2.3 Quality Service and customer loyalty

During the consumer decision making process, not only do consumers make decisions regarding which service provider to choose but also decide whether to remain loyal to the current service provider (Plessis & Rousseau, 1999). A basic premise of marketing is that through understanding customers and their purchasing habits, firms can design an effective product offering to help them achieve their objective which is to delight their customers and ensure customer retention. The cost of recruiting new customers is far greater than the cost associated with keeping existing customers which may reduce profitability of the firm. Understanding customer behavior is intricately linked to understanding the needs and wants of customers. Today it is no longer sufficient for a business to simply satisfy a customer during a single transaction, rather, it must try to retain the customer for life; that is, achieve customer retention (Schiffman & Kanuk, 2004).

According to (Zeithem & Bitner, 1996), quality in banking sector is classified across six dimensions, these include; bank atmosphere, the relationship between the customer and the bank, rates and charges, the available and convenient services, automated teller machines, reliability/honesty, and enough and accessible tellers. Service quality since the past three decades has been able to attract the attention of major practitioners, researchers and managers due to its robust influence on not only on business operations, profitability but also customers' satisfaction and loyalty. Institutions that adopt strategies to compete better are more likely to survive in the long run. Customer loyalty to businesses is one way of keeping banking businesses competitive. Service quality is considered as key elements for top management in successful business organizations (Blose, Tankersley, & Flynn, 2005). Today's competition rewards businesses that protect products and services through customer retention (Roberts, 2005). Customer retention through quality service, product, price and access to a bank's facilities among others, are critical to customer satisfaction. Research also shows that satisfied customers make repeat purchase (or stick to their service providers) and recommend to friends and families thereby increasing market share and profitability of the organization.

2.4 Advantages of customer's Loyalty

The advantages of customer loyalty which include the service cost of a loyal customer is less than fro new customers. Loyal customers will pay higher costs for a set of products and for a company while they will also act as a word-of-mouth marketing agent. The determinants of customer loyalty are service quality, service features and customer complaint handling process as discussed in the foregoing sections (Gee, Coates, & Nicholson, 2008). According to Lai, Griffin, & Babin, (2009) loyalty is one of the main determinants of long term financial growth in an organization. Service quality is also linked with customer loyalty. Some other researchers have also provided the strong empirical evidences supporting the fact that service quality increases the customer intentions to remain with any company. For example, Buzzell and Gale (1987) found out that service quality results in increased market share and repeated sales that ultimately leads to customer loyalty. (Zeitham & Bitner, 1996). This is also concluded in their research that shows that when organizations improve the quality of their services, customers' unfavorable intentions are decreased while favorable behavioral intentions are increased.

2.5 Correlation between customer perceptions of service quality and loyalty level

Customer satisfaction is directly proportional to service quality. So organizations should pay more attention on service quality. For this reason, the firms should welcome customer suggestions and should design programs which can measure service quality and customers satisfaction (Ojo, 2010). Empathy, reliability, responsiveness and tangibility which are the dimensions of service quality are positively related to customer loyalty and tangibility is one of the most important forecaster of customer loyalty (Al-Rousan, Ramzi, & Mohamed, 2010). Research depicts that improvement made to service quality will automatically increase the loyalty of customers. The service quality dimensions that play a significant role in customer loyalty are reliability, empathy, and assurance (Kheng L. M., 2010). Research also proved that tangibles and assurance has the most significant effect while empathy has the least significant effect on customer satisfaction (Ahmed, , et al., 2010).

Many previous studies indicated that there is a positive correlation between customer perceptions of service quality and loyalty level, represented by encouraging others to deal with the service provider and transfer positive news about the provider to others. In addition there is non-willingness to switch to another competitor, which is reflected in consideration service provider as the first choice for shopping and increasing the deal intention with him in the coming period (Khalifa et al., 2011). Onditi et al (2012) in his study on implication of service quality on banking customers found out that service quality is a significant determinant of customer loyalty in the banking sector, whether or not service quality is moderated based on the findings. The study concludes that quality of service is the single most significant determinant of customer loyalty among customers in the banking sector in Homa Bay County, Kenya.

3. Research Methodology

This study adopted a descriptive survey and correlation design. Descriptive surveys are used to describe the situation on the ground as it is. According to Mugenda and Mugenda (2003) a descriptive design determines and reports the way things are. It attempts to describe such things as possible behavior, attitudes, values and characteristics.

3.1 Target Population

The population of this study was members of staff and Customers of Micro- Finance institutions based in Nyahururu, town Kenya. There are 6 Micro –Finance institutions in Nyahururu with 52 workers and 28808 customers. They include Faulu Bank, Real people, KWFT Micro – Finance Bank, PAWDEP, SMEP Micro-Finance Bank, and Vision Fund Kenya as shown below.

Table 1:Target Population

Institution	Customers	Staff
Faulu Bank	9,000	10
SMEP	3985	5
Real People	762	3
PAWDEP	510	2
Vision Fund	742	3
KWFT	13815	23
Total	**28,812**	**52**

3.2 Sampling Size and Sampling Procedure

Stratified sampling was used to obtain the sample. A sample is a part of the target population that has been procedurally selected to represent the population and gives everybody a chance to be selected. It is a smaller group obtained from the accessible population (Mugenda & Mugenda, 2003). A sample size of between 10% and 20% of the population is considered adequate for detailed in-depth studies (Mugenda & Mugenda, 2003). Gay postulates that 10%-20% of the population is sufficient for reliable findings. For lower population higher percentages are taken (Kothari, 2004).

All the 52 staff members were interviewed because the population is small.

When dealing with large populations (more than 10000) the sample size is determined using the normal approximation to the binomial distribution.

This approximation is very accurate when the population is large and the sample size is small. The sample size formula for large (binomial) population is shown as follows:

$$n = \frac{Z^2 pq}{E^2}$$

Where n = required sample size

p and q = Population proportions which are set at 0.5 each

Z = Level of confidence

Typical level of confidence for surveys is 95% in which

Case Z is set to 1.96.

E = Sets the accuracy of the sample proportion.

This was at 5% or 0.05.

The study had a population of over 10,000.

Therefore the sample size formula for large (binomial) population applied.

Equation 1: Sample size formula for large binomial population

$$\text{i.e. } n = \frac{Z2pq}{E} = \frac{(1.96)^2 (0.5)(0.5)}{(0.05)^2} = 384$$

The study used stratified sampling when selecting the customers of the Micro-Finance institutions The sample was 384 as shown in the table below.

Institution	Population	Proportion	Sample Size
Faulu Bank	9,010	0.31	120
SMEP	3990	0.13	53
Real People	765	0.02	10
PAWDEP	512	0.17	7
Vision Fund	745	0.02	10
KWFT	13838	0.47	184
Total	**28,860**	**1.00**	**384**

3.3 Research Instruments
The study gathered quantitative data using questionnaires as the basic research instrument. The questionnaire was the main data collection instrument but qualitative data was gathered using key informant interviews. Questionnaires questions were developed in line with the research objectives, to gather quantitative data from the respondents of the study. This ensured that the data collected was present an accurate picture of the situation on the ground.

3.4 Data Analysis
The data collected was sorted and then coded ready for analysis. Data analysis was done as per the objectives of the study. The data was analyzed at two levels. The first level was descriptive data analysis and the second level was quantitative data analysis. In descriptive data analysis, mean, standard deviation and percentages were used. Additionally, in quantitative data analysis, correlation, regression and ANOVA tools were used. The SPSS computer program was used to aid in analysis. Multiple linear regression model with dependent variable (Y) – Customer Loyalty and independent variables X1 (Customer perception), X2 (Quality of Financial Services), X3 (Mobile Banking), X4 (Sales Promotion) were used to show whether the stated independent variables significantly influenced customer loyalty. The regression model is illustrated below

$$Y = \beta_0 + \beta_1 X1_1 + \beta_2 X_2 + \beta_3 X3_3 + \beta_4 X_4 + \beta_5 X_5 + \ldots\ldots \varepsilon$$

Where

Y	=	Customer Loyalty
β_0	=	Constant
X_1	=	Customer perception
X_2	=	Quality of financial services
X_3	=	Mobile banking
X_4	=	Sales Promotion
β_1	=	Regression Coefficient of Variable X_1
β_2	=	Regression Coefficient of Variable X_2
β_3	=	Regression Coefficient of Variable X_3
β_4	=	Regression Coefficient of Variable X_4
β_5	=	Regression Coefficient of Variable X_5
ε	=	Error Term

4. Summary of Findings
Results from the study showed that majority of the respondents (58.07%) strongly agreed with the statements while only 1.24% strongly disagreed. This indicates that most of the financial institutions included in the survey had comfortable banking hall environment. The study further revealed that majority of the respondents (44.72%) strongly agreed with the statements. This implies in most financial institutions included in the study, the customers are able to access needed staff quickly without delay. The study also showed that majority of the respondents (47.2% n=152) strongly agreed with the statements that services offered by the institutions should be expanded while 30.1% (n=97) agreed. Those who strongly disagreed and those who were not sure both represented 9% n=29. This implies that the portfolio of services offered by the financial institutions is not satisfactory to the customers and the financial institutions should consider increasing them. The study further revealed that majority of the respondents (39.44%) strongly agreed with the statement while none strongly disagreed. This therefore implies that in the eyes of its customers and staff, the financial institution favorable charges compared to other institutions. Majority of the respondents (67.4%), agreed that most of the financial institutions included in the study have favorable prices for their products. In addition, though majority of the financial institutions included in the study used new technology to create services faster than its rivals, a significant number of the financial institutions represented by 27.64% of the respondents do not.

5. Conclusion
Based on the findings, the study makes the following conclusions. The competition among the financial institution is very subtle and the differences between different financial institution very edgy. Most customers attending financial institutions in Nyahururu are getting the needs met in the financial institutions and are positive about the financial institutions they patronize. Other than the favorable charges for their services, customers' access to staff and the comfortable banking hall and adoption of new technology that has improved the quality of services provided by the financial institutions. However the portfolios of services in these institutions are not adequate and the institutions should consider increasing them. Despite customers of financial institutions having a positive word about the financial institutions that they patronize, factors such as price and wider range of services and products is a factor that contributes to customer loyalty.

6 Recommendation

The financial institutions should increase the portfolio of services they offer in order to satisfy their customers. To ensure they remain relevant in the financial sector, the institutions should keep on expanding and embracing new technology in order to increase efficiency in service delivery and customer satisfaction. They should also keep on expanding the horizon of possible services that they can offer to their customers..

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