

**INTERNAL FACTORS AFFECTING CUSTOMER SATISFACTION OF  
COMMERCIAL BANKS IN KITUI TOWN**

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**A RESEARCH PROJECT REPORT SUBMITTED TO THE DEPARTMENT OF  
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## DECLARATION

This research project is my original work and has not been presented for any academic work in any other university.

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## **DEDICATION**

This work is dedicated to GOD for the strength and power that He has given me. He has been my present rock in whose shadow I have found comforting refuge even the many times I have felt weary.

## **ACKNOWLEDGMENT**

First and foremost, my sincere thanks go to God for enabling me go this far, unto him be glory forever. My special thanks go to my supervisors, Dr. Jared Ariemba and Mrs. Regina Wambua for the guidance, and every contribution they made to help me come up with this work. I also want to thank all my classmates and other people who have helped me in all the phases of my studies.

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## **LIST OF ACROYNMS AND ABBREVIATION**

<b>SPSS</b>	Statistical Package for Social Sciences
<b>ATM:</b>	Automated Teller Machine
<b>CRM:</b>	Customer Relationship Management
<b>CBK:</b>	Central Bank of Kenya
<b>KCB:</b>	Kenya Commercial Bank
<b>LTV:</b>	Life-Time Value
<b>ROI:</b>	Returns on Investment
<b>SACCOs:</b>	Savings Credit and Cooperative Societies
<b>LTD:</b>	Limited
<b>CAM:</b>	Customer Asset management
<b>CE:</b>	Customer Equity
<b>PR:</b>	Public Relations
<b>SME:</b>	Small and Medium Enterprises
<b>NBK:</b>	National Bank of Kenya
<b>BBK:</b>	Barclays Bank of Kenya

## **OPERATIONAL DEFINITION OF TERMS**

**Customer incentives:** Is something that incites or tends motivate to action or great effort as a reward offered for increased productivity or returns.

**Customer satisfaction:** Is the degree of satisfaction provided by the goods or services being offered by the commercial banks.

**Customers' loyalty:** Is the likelihood of existing customers to continue being faithful to the products being offered by commercial banks.

**Active customers:** Refers to those bank customers visiting on daily basis.

**Innovators:** Are technology enthusiasts; they are venturesome and enjoy tinkering with new product and mastering their intricacies. In return for low process, they are happy to conduct alpha and beta testing and report on early weakness

**Integration:** Is the improvement of the capabilities of understanding customer behavior, develop predictive models, build effective communications with customers and respond to those customers in real time and with accurate information

**Technology advancement:** Is the improvement and innovation of the IT services to improve on customer service.

**Turn-around time:** is the time taken to complete a task. For instance, in the banking sector, it includes the time taken to open and activate accounts, for ATM cards to be processed, for cheques to clear and generally how long transactions take time. This can affect customer satisfaction because time

is a resource. The faster the transactions, the more the customer was satisfied for saving time.

## **DEFINITION OF TERMS**

**Customer Relationship Management:** This concept has been coined as an operational business strategy consolidating customer information, analyzing data, understanding customers' behavior and creating interactive and highly personalized relationships (Swift, 2001).

**Customer Retention:** Is the activity that a selling organization uses to reduce customer defections (Wang and Splegel, 1994).

**Customer:** Refers to any person capable of opening and transacting a bank account, loan account, and those with potential to transact with the bank (Wang and Splegel, 1994).

## ABSTRACT

The purpose of this study was to establish internal factors affecting customer satisfaction of commercial banks in Kitui town, Kitui County. This was achieved by analyzing the following five specific objectives: To determine the effect of commercial banks' product innovation on customer satisfaction in Kitui town. Secondly, to examine the effect of commercial banks' relationship management on customer satisfaction in Kitui town. Thirdly, is to find out the impact of commercial banks' customer feedback on customer satisfaction in Kitui town. Fourthly, is to determine the effect of commercial banks' turnaround time on customer satisfaction in Kitui town and to find out the effect of commercial banks' queuing management system on customer satisfaction in Kitui town. The study targeted an estimated population consisting 560 active customers, from NBK, 570 active customers, from KCB, 580 active customers, from Equity, 490 active customers, from BBK, 430 active customers, from Cooperative, 270 active customers, from Family, 220 active customers, from Postbank, and about 160 active customers in K-rep Bank. The banks were stratified into eight strata, and simple random sampling was used to pick the respondents from the eight branches of different banks operating in Kitui town. The study adopted descriptive survey design. The design supports the development of precise measurements and reporting of characteristics of some population phenomena. Two instruments were developed for the study. There was a questionnaire for both bank customers and an interview schedule for the bank managers in the eight commercial banks. The questionnaire for customers was administered at the entrance. The branch managers were interviewed on product uptake and customer retention using the interview schedule. This information was used in determining the customers' satisfaction with bank products. Quantitative data from the study was analyzed using SPSS Version 21, and different statistics was measured and analyzed. Qualitative data was analyzed by a particular discussion of arising themes and observations made. Finally, triangulation on the data was performed to check out the consistency of the findings generated by the different methods used. Responses to similar themes or objectives, emanating from different respondents were compared to determine their convergence or divergence. The findings of this study were; this study shows that a unit change in turnaround time will cause a positive change in customer satisfaction and that turnaround time has the greatest contribution to the model. Also unit changes in customers queuing management will lead to a significant change in customer satisfaction. A unit change in product relationship management will lead to a change in customer satisfaction significantly. Also unit change in customer's feedback will result to a positive change in customer satisfaction while a unit change in product innovation will course a positive change in customer satisfaction. The adjusted R squared shows that the variations in customers' satisfaction are significantly explained by the independent variables (product innovation, relationship management, customers' feedback, turnaround time, and queuing management). Based on the findings of this study, the researcher made the following recommendations;-The bank should frequently carry out customer satisfaction surveys to find out the opinions of its customers. Their feedback can be used to improve services and products offered. The bank should also improve its turnaround time as this will help shorten queues and waiting time of customers. The bank should shorten the time that it takes to make decisions on customer requests.



# **CHAPTER ONE**

## **INTRODUCTION**

This chapter focused on the background of the study on the customer satisfaction and the internal factors. It discusses the background of the study, customer satisfaction, internal factors, Problem Statement, objectives, general objective, specific Objectives, research questions, justification of the study scope of the study, limitations of the study and finally assumption of the study.

### **1.1 Background of the Study**

The banking industry is one of the biggest and oldest industries in the world and most importantly the core part in the economy of the whole world. Its stability and growth are therefore paramount to the economic performance of individual countries including Kenya (Bank of International Settlements, 2010). The name 'bank' is derived from the Italian word banque which means "desk/bench," utilization during the Regeneration era by Florentine bankers, who used to make their transactions above a desk covered by a green tablecloth (Martin, 1855).

A commercial bank (or business bank) is the kind of bank that provides products, such as taking deposits, giving business loans and basic investment products. A Commercial bank can also be said to be a financial institution or a division of a bank that mostly takes deposits and loans from companies or large businesses, as opposed to individual members of the public(Matyszak, 2007).

Global banking and capital market services grew during the nineteen eighties and nineteen nineties due to a significant increase in demand from companies, governments, and financial institutions, but because financial market conditions. Interest rates in the United States declined for about 15 percent. For the first two-year period, the U.S. Treasury noted about 5 percent during the 20-year period, and financial assets grew at a rate that is nearly twice the rate of the global economy. The growth rate would have been less. In the past two decades, if it were not for the insightful effects of the globalization of financial markets particularly the US. Foreign investments, especially from Japan, who not only gave the funds to companies in the U.S., but also assisted fund the federal government; thus, transitioning the U.S. stock market by far into the biggest in the world (Berger, 2010).

Several Acts governs the Banking industry in Kenya. It falls under the Companies Act, the Banking Act, and the Central Bank of Kenya Act. The industry is also regulated by various practical guidelines that are given by the Central Bank of Kenya (CBK). The banking sector was liberalized in nineteen ninety-five and exchange controls lifted (Central Bank of Kenya, 2015).

### **1.1.1 Customer satisfaction**

The most common way of quantifying satisfaction is to compare the customer's perception of an experience, or some part of it, with their expectations. This is known as the expectations disconfirmation model of customer satisfaction. Using this model, customer satisfaction can be categorized by level of customer expectation (Hansemark & Albinsson, 2004). This model suggests that if customers perceive their expectations to be

met, they are satisfied. If their expectations are underperformed, this is negative disconfirmation, and they was dissatisfied.

Through product innovation, companies can create highly satisfied customers who are loyal to the organization. This is beneficial to the organization as the customers spread positive word-of-mouth, in essence, becoming a walking talking advertisement for the firm. If many delighted customers are spreading positive word-of-mouth communication, this then lowers the cost of promotion to attract new customers ( Anderson, H., & Jacobsen P. N., 2000).

Harter, (2003) also indicates that highly satisfied customers are more forgiving than the unsatisfied customers. It, therefore, translates that the firm can occasionally slip up and not lose customers. Having highly satisfied customers then, is like having an insurance policy against something going wrong in the service encounter. Mainly, customer satisfaction can be seen as a means of achieving business goals as well as being a source of sustainable competitive advantage.

### **1.1.3 Internal factors**

According to Mishra (2009), internal factors in a bank are variables within the banking sector which influence the satisfaction of customers. The internal factors leading to customer satisfaction in a banking sector includes; product offered by the bank, management practices, customer service, banks opening time, closing time, time taken to respond to customers' complain and bank workers attitude towards customers (Mailu, 2014). The importance of measurement of customer satisfaction lies in the fact that one

key to customer retention is customer satisfaction (Sadeghi, and Hanzae, 2010). A highly satisfied customer generally stays longer, buys more as the company introduces new products and services and upgrades existing products and services, talks favorably to others about the company, pays less attention to competing brands, offers product or service ideas to the company, and costs less to serve than new customers because transactions can become routine (Homburg, 2005). Greater customer satisfaction has also been linked to higher returns and faster company growth.

The measurement of customer satisfaction is not possible unless the factors leading to customer satisfaction are determined. There are both external and internal factors. External factors are those factors from outside the bank that affect customer satisfaction. Internal factors are those factors or influencing systems from and within the bank; that in one way or another affect customer satisfaction. There are various categories of those factors. Examples are product innovation practices, relationship management practices, customer feedback handling, banks' turnaround time and queue management system.

Product innovation practices are currently a priority for managers of many commercial banking organizations and it is a driver of performance and a key of growth as organizations in this industry operate in an extremely competitive and dynamic environment. There are many forms of banking innovations in the banking sector which include relationship banking, automated teller machines, telephone banking, internet banking, branch networking, electronic funds transfer and real time gross settlement system (Ngugi, 2000).

According to Macesich, (2000), some areas where commercial banks have done a lot of innovation include; The automated teller machine (ATM), agency banking and mobile banking, real-time gross settlement (RTGS), WAN and electronic Funds Transfer. ATM is a device that combines a computer terminal, record-keeping system and cash vault in one unit, permitting customers to enter the bank's book-keeping system with a plastic card containing a Personal Identification Number (PIN). Once access is gained, it offers several retail banking services to customers. ATMs are mostly located outside of banks; and are also found at airports, malls, and places far away from the home bank of customers. They were introduced first to function as cash dispensing machines.

However, due to advancements in technological innovations, ATMs are able to provide a wide range of services, such as making deposits, funds transfer between two or more accounts and bill payments (Berger, 2010). Banks tend to utilize this electronic banking device, as all others for competitive advantage.

Relationship Banking has been developed and embraced by commercial banks as the relationship between the clients and the banks is largely a contractual one. When completing a form to open an account, the client is offering his money to the bank, while the bank is at liberty to accept or reject the offer as it sees fit. Once both parties accept the terms as discussed, a relationship is formed between the parties (Richards, & Jones, 2008.) Relationship banking involves banks investing in building relationships with followers. Relationship banking is the provision of financial services by a financial intermediary that invests in obtaining customer-specific information, often proprietary in nature; and evaluates the profitability of these investments through multiple interactions with the same customer over time and/or across products. Three conditions are met when

relationship banking is present, which are: the intermediary gathers information beyond readily available public information; information gathering takes place over time through multiple interactions with the borrower, often through provision of multiple financial services; and the information remains confidential (proprietary).

Relationship banking can increase the banks' earnings by maximizing the profitability of the total customer relationship over time, rather than by seeking to extract the most profit from any individual product or transaction (Harter, 2003). Relationship banking can facilitate a Pareto-improving exchange of information between the bank and the borrower. With relationship banking, a borrower might be inclined to reveal more information than in a transaction-oriented interaction and the lender might have stronger incentives to invest in producing information.

Customer feedback management has become an integral part of the banking industry, both from the regulatory perspective and a customer service standpoint. Simply stated, feedback management is, according to [customerexpressions.com](http://customerexpressions.com), the formal process of recording and resolving a customer complaint and responding to complements and suggestions. It means listening to unsatisfied customers and taking actions to remedy issues, where appropriate. Customer feedback management is just one initiative under a large strategy called customer experience management (CEM). By listening to the customers, banks can develop service standards and delivery processes to meet the standards (Mohamed Zairi, 2000).

Turn-around time is the time taken to complete a task. For instance, in the banking sector, it includes the time taken to open and activate accounts, for ATM cards to be processed,

for cheques to clear and generally how long transactions take time. This can affect customer satisfaction because time is a resource. The faster the transactions, the more the customer was satisfied for saving time.

Long queues are a big alarm sign for banks and also for customers. They explain the quality of service and also bank's initiative towards making customer experience more favorable. In retail banking industry, queuing remains one of the most common reasons for customer disgust. Despite technological advances such as online and mobile banking, customers still complain about their bank. Thus, if banks have efficient queue management systems that ensure shared and faster delivery of services to different sets of customers, it leads to higher customer satisfaction.

Global banking and capital market services proliferated during the 1980s and 1990s as a result of a great increase in demand from companies, governments, and financial institutions, but also because financial market conditions. Interest rates in the United States declined from about 15 percent for two-year U.S. Treasury notes to about 5 percent during the 20-year period, and financial assets grew then at a rate approximately twice the rate of the world economy. Such growth rate would have been lower, in the last twenty years, were it not for the profound effects of the internationalization of financial markets especially U.S. Foreign investments, particularly from Japan, who not only provided the funds to corporations in the U.S., but also helped finance the federal government; thus, transforming the U.S. stock market by far into the largest in the world (Berger, 2010).

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted.

Although Kenya's financial system is by far the largest and most developed in East Africa and its stability has improved significantly over the past years, many challenges remain. Banks' asset quality and liquidity positions have improved, making the system more resistant to shocks, and interest rate spreads have declined, in part due to reduction in the overhead costs of foreign banks. Outreach remains limited, but has improved in recent years, driven by mobile payments products in the domestic remittance market. Fostering a level regulatory playing field for all deposit-taking institutions is a key remaining challenge. Specifically, an effective but not overly burdensome framework for regulation and supervision of microfinance institutions and cooperatives is a priority. Maintaining an openness to new, and non-bank, providers of financial products, which have enabled the success of mobile payments, could also further outreach (Kotler and Sydney, 2000).

The importance of measurement of customer satisfaction lies in the fact that one key to customer retention is customer satisfaction (Sadeghi, & Hanzaee, 2010). A highly satisfied customer generally stays longer, buys more as the company introduces new products and services and upgrades existing products and services, talks favorably to others about the company, pays less attention to competing brands, offers product or service ideas to the company, and costs less to serve than new customers because transactions can become routine (Homburg, 2005). Greater customer satisfaction has also been linked to higher returns and faster company growth. The measurement of customer



satisfaction is not possible unless the factors leading to customer satisfaction are determined. For this reason, the factors leading to customer satisfaction need to be found out.

## **1.2 Problem Statement**

Many of scholars and academicians all around the world have highlighted the importance of customers. Top performing financial institutions believe that customers are the reason for their existence, and they very much rely on them. The customers are not entirely the source of issues. Therefore, the banks should never wish that customers “should go away ” because their future and security was put in jeopardy. These forms the main reason banks in the current times are giving too much devotion to customer satisfaction, retention, and loyalty (Zairi, 2000). Satisfaction or contentment is a whole customer attitude or behavior towards a service provider. It is also an emotional reaction towards the variance between customers’ expectation on what they want to receive, regarding the fulfillment of some desire, need or goal.

On the other hand, customer loyalty refers to the consequence of an organization is designing a beneficial added product or service for clients so that they will maintain and increasingly repeat business with the organization. To attain total customer satisfaction, commercial enterprises should be in a position to build and maintain a long-lasting association with clients by meeting various customer needs and demands which resultantly motivates them to continue to do business with the organization on an on-going basis.

Many of the studies done in this field have focused on business corporations in general. In sub-Saharan Africa, technology penetration is still at the infant stage, especially in the banking sector. Most banks have been operating using the traditional methods until recently, and the shifting is still in progress. A lot is yet to be achieved in establishing the extent of customer satisfaction with bank products in a region that is on the move to technological new heights. This formed the main reason as to why this study has been initiated. However, scanty have the studies looked into internal factors affecting the customer satisfaction in commercial banks. Therefore, this study sought to find out the internal factors affecting customer satisfaction of commercial banks in Kitui town.

### **1.3 Objectives**

This study was guided by the following objectives.

#### **1.3.1 General objective**

The general objective for this study was to find out the internal factors affecting customer satisfaction of commercial banks in Kitui town.

#### **1.3.2 Specific Objectives**

The specific objectives were:

- i. To determine the effect of commercial banks' product innovation on customer satisfaction in Kitui town
- ii. To examine the effect of commercial banks' relationship management on customer satisfaction in Kitui town
- iii. To find out the effect of commercial banks' customer feedback on customer satisfaction in Kitui town

- iv. To determine the effect of commercial banks' turnaround time on customer satisfaction in Kitui town
- v. To find out the effect of commercial banks' queuing management system on customer satisfaction in Kitui town

#### **1.4 Research Questions**

The study sought to answer the following questions:

- i. What is the effect of commercial banks' product innovation on customer satisfaction?
- ii. What is the effect of commercial banks' relationship management on customer satisfaction?
- iii. What is the effect of commercial banks' customer feedback on customer satisfaction?
- iv. What is the effect of commercial banks' turnaround time on customer satisfaction?
- v. What is the effect of commercial banks' queue management on customer satisfaction?

#### **1.5 Justification of the Study**

The study was of value addition to the bank in designing its products and provision of its products that they be customer oriented. This study also helped the bank to increase its competitiveness while maintaining its customers by increasing customer relationship. The study was also relevant to other financial organization in improving their specific other areas of performance. Future researchers and scholars may also use the study findings as a source of reference for further research in the same area.

### **1.6 Scope of the Study**

The study was conducted in Kitui Town of Kitui County with main concentration on commercial banks in Kitui. The study mainly focused on internal factors affecting customer satisfaction of commercial banks in Kitui town.

### **1.7 Limitations of the Study**

Data of the study was collected from the bank customers, which could sometimes be hard to get their attention due to their busy schedules. Some respondents demanded compensation for providing the required data and it was not easy to convince them to fill the questionnaire. Customer satisfaction was not only influenced by product innovation practices, relationship management, customer feedback, turnaround time and queue management hence the study will not be in a position to analyze other factors except only these five.

### **1.8 Assumption of the study**

This study assumed that customers in commercial banks in Kitui town give responses and with no alterations; hence it is an unbiased reflector of their experience. The study also dealt with information from the customers solely and assumed it is a real reflection of the situation of the customers.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter focused on the review of literature related to this study. 2.2 discuss theoretical review on customer satisfaction in banking industry, 2.3 will discuss empirical literature on customer satisfaction, 2.4 will discuss an overview of the literature of this study and finally 2.5 will represent the conceptual framework of the study.

#### **2.2 Theoretical literature review**

This study was based on Dissonance Theory and Negativity Theory.

##### **2.2.1 Dissonance Theory**

This theory was proposed by Festinger's (1957). Dissonance theory suggests that consumers make some kind of cognitive comparison between expectations about the product and the perceived product performance. According to the theory, consumers look to avoid dissonance by changing perceptions about a particular product to make substantial alignment in accordance with the expectations. Customers can also decrease the tension emanating from a discrepancy between product expectations and the actual product performance by altering expectations so that they correspond with professed product performance or by increasing the level of satisfaction by abating the relative importance of the disconfirmation experienced. When the expectations and the actual product performance do not match, the consumer will feel some degree of tension. To relieve this tension, the customer will engage adjustments in either expectations or the perceptions of the product's actual performance.

### **2.2.2 Negativity Theory**

Carlsmith and Aronson (1963) put this theory forth. It proposes that any discrepancy of performance from expectations will disrupt the individual, producing “negative energy.” Affective feelings toward a product or service were inversely related to the magnitude of the discrepancy. The theory is relevant to this research as the study focuses on internal factors affecting customer satisfaction of commercial banks in Kitui town, Kenya. It is, therefore, the responsibility of the bank workers to ensure that they meet the customers’ expectation so as to retain them hence increasing their profits.

## **2.3 Empirical literature review**

This section covered the literature related to the factors affecting customer satisfaction of commercial banks following research questions.

### **2.3.1 Commercial banks product innovation and customer satisfaction**

A significant level of customer satisfaction is amongst the most critical indicators of the business’s future. Clients who are satisfied are also loyal, and this ensures a consistent cash-flow for the enterprise in the future. Additionally, satisfied customers are often characterized as fewer prices sensitive and they are more likely to spend more on getting products they have tried and tested before. Moreover, stability in business relations is also beneficial where the positive quality image minimizes the cost for a current customer (Manrai & Manrai, 2007).

According to (Homburg, Koschate, & Hoyer, 2005), satisfaction refers to a feeling or a short-term attitude that can change owing to various circumstances. It exists in the user’s mind and is unlike observable behaviors like product choice, complaint or repurchase. In

a related study, Jham J, and Khan (2009), investigated the link that exists between the expectations, actual performance, and the satisfaction. The findings established that when a client judges the performance of a product, he usually compares a set of performance outcomes that are expectations. The product is then likely to be considered as dissatisfactory or satisfactory.

Product innovations are viewed as the “engine” driving the fiscal system towards attaining its goal of enhancing the performance of what economists call the “real economy” (Merton (1992). Merton (1992) cites the US national mortgage market, the development of international markets for financial derivatives and the growth of mutual fund and investment industries as examples where innovations have produced enormous social welfare gains. Product innovations involving derivatives can improve efficiency by expanding opportunities for risk sharing, lowering transaction costs and reducing asymmetric information and agency costs (Merton, 1995). Product innovations promote economic growth by allocating capital where it can be most productive.

Mwangi (2007) pointed out that innovations allow markets to craft specialized mortgage contracts and to transfer risks, and product innovations have clearly benefited consumers by driving down costs. The author pointed out that since 1985; initial fees for conventional mortgage loans have fallen from roughly 2.5 percent of loan balance to about 0.5 percent. Additionally, a combination of legal and product innovations has brought a big increase in the number of players in the mortgage market, including brokers, underwriters, and servicers and rating agencies. Another advantage noted by the author was a choice. A few decades ago, people were offered one or two different

mortgage products, but now they can choose from multiple instruments and payback structures. Finally, customers benefit from faster loans decisions.

ATM is one of the product innovations, and the following benefits were associated with the ATM. It creates convenience to the society by providing cardholders with 24-hour access to their safely banked cash, increase in retail purchase outside banking hours, that is, cash from ATMS have extended shopping hours providing for greater sales, greater employment opportunities and greater convenience for today's highly free citizens.

Kihumba (2008) in the study on determinants of product innovations and its effect on banks performance in Kenya found that increase in customer service, market expansion, and increased banks revenue were the most benefits derived from product innovations. Others included a reduction in the number of clients in the banking hall, reduction in operational costs and geographical expansion of banks.

The merged services of both the automated and human tellers imply there was increased productivity for the bank during banking hours. ATMs also enhance customer satisfaction as they save customers' time in service delivery as an alternative to queuing in bank halls, enabling them to invest such time saved into other productive activities. ATMs are also a cost-efficient way of yielding higher productivity as they achieve higher productivity per period than human tellers. Furthermore, as the ATMs continue to be existence and the human tellers are faced out, there is increasing productivity for the banks even after banking hours.

Telephone Banking is a product innovation that is considered as a form of remote or virtual banking. This is essentially the delivery of branch fiscal services through



telecommunication devices. Here, the customers can execute their retail banking transactions through a touch of a button on a touch-tone telephone or on their communication gadget like the mobile phones, which is linked to an automated system of the bank through utilizing Automated Voice Response (AVR) technology (Carter, 2010). Tele-banking has various advantages for both clients and banks. As far as the banking clients are concerned, it offers increased convenience, broad access, and substantial time saving. On the other hand, from the institution's perspective, the costs of delivering telephone-based services are substantially lower than those of branch-based services.

According to Anyasi and Otubu (2009), the idea of Internet Banking is to give customers access to their bank accounts via a website and to enable them to enact certain transactions on their on their account, given compliance with stringent security checks. Internet Banking has also been described as the provision of customary banking services via the internet. Internet banking naturally offers more convenience and flexibility to customers coupled with a virtually absolute control over their banking. It has in time proven to be the one of the leading cost-effective technological methods of achieving high productivity. Furthermore, it eliminates the issues regarding the geographical barriers like distance/time and provides continual productivity for the bank to unimaginable distant customers.

Branch Networking is the computerization and inter-connecting of geographically dispersed stand-alone bank branches, into a unified system through the use of a Wide Area Network (WAN) or Enterprise Network (EN) for the creation and sharing of consolidated customer information/records (Sadeghi, and Hanzae,2010).). It offers a quicker rate of inter-branch transactions as the consequence of distance and time are

eliminated. Branch networking as a product innovation enhances more productivity per period. With the several networked branches serving the customer populace as one system, there is a simulated division of labor among bank branches with its associated positive impact on productivity among the branches. Furthermore, branch networking enhances customer satisfaction as it curtails customer travel distance to bank branches, therefore, more time to involve themselves in other productive activities.

The Electronic Funds Transfer at the Point of Sale is an additional product innovation that is widely used by commercial banks. It is an online system that enables customers to transact funds across different geographic locations instantly from their accounts to the accounts of the merchants when they are purchasing goods and services. A POS utilizes a debit card to activate an Electronic Fund Transfer process (Berger, 2010). Increased banking productivity results from the use of EFTPoS to service customers shopping payment requirements. The approach eliminates the need for clerical tasks to handle cheques and cash withdrawals for customers to do their shopping. Furthermore, the system steps beyond banking hours, hence continual productivity for the bank even after banking hours. It also saves customers' time and energy in getting to bank branches or ATMs for cash withdrawals that can be harnessed into other productive activities.

Real Time Gross Settlement (RTGS) system is one of the newest product innovations in the commercial banking industry and the fastest way of money transfer mechanism from one bank to the other. In RTGS, the transactions are executed and settled based "Real time" and on "Gross". Once the transaction is done, it cannot be reversed. "Real time" can be described the time as and when the transaction is processed while "Gross" refers to the way in which the transaction is settled individually without being clubbed with

other transactions. The RTGS system has led to increased banking productivity as it has led to a reduction of settlement risk due to settlement lag, reduced credit risk and speed up processes of high-value payments (Berger, 2010).

### **2.3.2 Commercial bank customer relationship management and satisfaction**

Perrault and McCarthy (2002) define customer relationship management (CRM) as an approach where “the seller fine-tunes the marketing effort with information from a detailed customer database”. CRM aims to provide the customers benefits and values from their point of view and not based on what the firm wants to sell. The main principles of CRM implementation include personalization, loyalty, and life time value. Customers need to be treated individually; customer loyalty needs to be acquired and retained through a personal relationship, and they need to be selected based on lifetime value (select “good” customers, not “bad” customers).

According to Kotler and Sidney (2000), the four primary roles or goals of CRM include the following: Customer identification. The company builds up information about its clients over time through transactions, interactions and other marketing channels. It is essential for them to understand who their customers are and what their needs are to enable them to provide a value offering service or products: Customer differentiation. Customers are different based on lifetime value, unique demands, and requirements. The company continuously needs to learn about the customers as their requirements change. In addition, it is important that the company keeps track of customer behavior and needs; Customization/personalization. The motto of CRM is that customers need to be treated in a unique manner. Customer loyalty can be increased through a personalization process.

The main benefits of CRM include the following: Improved retention and acquisition ability of the company; to maximize the customers' lifetime value; improving customer service, without an increase in costs.

A CRM program that is successful will assist a firm to create wealth and withstand growth by connecting with clients and receiving value through the relationship (Cap Gemini Ernst and Young, 2005). Companies cannot create sustainable growth without growing the value of its customer base. A disciplined CRM program can assist the business to realize relationship value and growth through either effective targeting or acquiring clients, cross-selling, cultivating existing relationships and by improving customer loyalty.

Being close to your customers has undoubtedly been one of the key successes of relationship management. The bonds of trust that build up between a company and its core customers are based mainly on the close and personal relationship between the relationship banker and customers (Bhote, 1996). This close relationship does not refer to any friendship or favoritism, but rather to a partnership or relationship that brings mutual benefit. The feat of the relationship is dependent on the partners understanding each other (Cheese, 1994). Part of this process is building up data on customers as well as storing the data, which again should be easily available for usage at any point in time. Due to the volume of customer information, it should be stored in a computer database or customer relationship management system. The data usually includes data on customers' past purchases as well as additional segmenting information.

Customer relationship management is an approach where the company improves the marketing effort with information from a detailed customer database (Perreault & McCarthy, 2002). The underlying purpose of CRM is to unlock the value of the relationship assets in a company to enable acceleration in revenue and profit growth (Eisingerich, and Bell, 2006). Utilizing CRM in meeting the customers' immediate and long-term needs enables companies to build customer loyalty and long-term relationships to the benefit of both parties. The implementation of CRM systems in the banking sector provides the means to conduct interactive, relevant and personalized communications with customers.

The relationship bankers can use CRM systems in providing them with a detailed profile of each customer or a single view of the customer. These powerful customer-information systems have become a critical strategic focus for banks around the world. Relationship banking builds on the current trend of CRM or data-driven optimization of customer relationships (Cram, 2001). The CRM system does not create customer loyalty by itself, but assists in identifying critical information about customers and who the most valuable customers are. It supports the process of relationship banking in moving closer to the client. CRM techniques are also used to support communication and to promote consistent messages throughout a business to both clients and staff (Lovewell, 2005).

The CRM system is also a tool to store firstly and secondly share customer information held by relationship. It is however very important that banks use the confidential information sensitively and with the utmost respect (Fournier, 1998). Customers

experience a level of discomfort when banks continuously request similar information from them, but from different business units. The collection of data must be coordinated from a single point of contact, and distributed to other units or product divisions as required. A further irritation for customers is if the information is not utilized effectively.

### **2.3.3 Commercial banks customer feedback and customer satisfaction**

Selnes (1998) and Berry and Parasuraman (1991) identified trust as an essential element in maintaining and enhancing the relationship between a buyer and a seller. Trust can be established through the exchange of information, proactive resolution of complaints and conflicts, integrity and reliability. Indeed, relationship marketing seeks to establish and strengthen interaction between an organization and its customers by building an everlasting bond with them. The overall objective is to increase long-term sales even though it also facilitates product or service repositioning, snatch customers from competition and assist in launching new products or services. The paramount purpose of relationship marketing is to establish, maintain, and enhance the relationship with customers that are profitable (Gronroos, 1993). Thus, it is important for relationship managers to scrutinize the best relationship, which is worth the effort, but how to detect the best relationship is the crux of the matter.

Understanding the nature of the service one provides to customers allows for an appreciation of how the customers see the services provided. According to Tumi (2005), in any customer service interaction, the perception of customers is crucial to one's ability to ensure that they are satisfied beyond expectation. This helps to give customers not what is obvious but also fulfill a multitude of less obvious customer needs (Tumi, 2005).

Porter (2008) explains that customer expectations and demand for services have substantially increased. As consumers become better educated, they demand new products, better and more reliable delivery, as well as more responsive services; As a consequence, to improve competitiveness, “mtaani” agents have to understand the customers’ needs and expectations and satisfy them by providing excellent services.

In Kenya Commercial Banks business model is built around customer focus. The banks have endeavored to create a culture to reinforce this feedback strategy. Kenya commercial banks have adopted an open-door and technological customer feedback approach where its senior personnel are readily available to its clients. There exists a customer care help desk that works round the clock. Commercial banks have assisted their agents to create a fulfilling working environment each by developing an organizational architect that motivates its staff even at branch level and virtual support to its customers through automatically coded responses to some of the standard queries. This step not only generates job satisfaction but also creates customer satisfaction due to the swift decision-making. Firms have now realized that long-term growth and survival is dependent on a good customer’s satisfaction.

Equity Bank has endeavored to establish a customer-centric approach to business. Within a short period in the market, it has been able to match and even exceed the comparative performance of other earlier market entrants. They provide the ideas for new products and new applications through interactive customer forums and follow ups. They offer

early warning signals about your products' quality and timeliness. They know about the competitors, 'to know your customers is to know your future,' (Fox, 2000).

Cooperative bank as well owns its customers through close relationship, especially regarding complaints. Impeccable customer service and feedback has endowed the business with an expansive market share that it strives to maintain and retain. The institution does this by coming up with new products and services tailor made for the benefit of all ranges of its clients. The services include things such as executive banking for senior people in society, mobile and internet banking for remote banking and agency banking to save its customers the costs of having to travel to a branch to obtain bank services, ([www.cooperativebank.com](http://www.cooperativebank.com)). To be effective, service quality must reflect the dynamics of that environment. Customer service refers to a series of actions designed to raise the level of customer satisfaction, that is, the feeling that a given product or service has met the consumer's expectation, (Fox, 2000).

#### **2.3.4 Commercial banks' turnaround time and customer satisfaction**

According to (Gemes, Fletcher, & Aggarwal, 2009), the current banking industry has been transformed into an overcomplicated one. Over the last few of years, the financial institutions have developed rapidly by acquisitions and mergers without full implementation of the shared services. The application of shared services includes integration of new products, processes, and systems. The transition has led to complex matrix organizations, as well as broad and sophisticated product offering that are serviced by an assortment of incompatible information technology (IT) systems. Besides, the



banking industry has made substantial investments in alternative distribution channels devoid of a significant increase in value from its networks (Naghizadeh, 2005).

Turnaround time may not be feasible under some circumstances. In other settings, the organization might lack the capabilities or resources to implement appropriate turnaround time correctly. Even if applied correctly, in a suitable setting, the organizational outcome of a turnaround time still depends on emergent factors (such as competition), which can prevent or delay in turnaround time. Factors that influence the turnaround time include severity of the distressed state, firm size and free resources available (Smith and Graves, 2005).

Further observes that the sophisticated outlook of the banking industry has given rise to the changing ranks of customer service and inefficiency. From the client's standpoint, it is an unfortunate nonetheless accepted fact of practice that service from a bank can be below the optimal levels (Gemes, Fletcher, & Aggarwal, 2009). Additionally, over the past couple of years, the banking industry has not witnessed significant developments in its cost-to-revenue ratios, although cost-cutting efforts focused around merging, subcontracting, offshoring, and rationalization with suppliers. Concurred that the compound nature of the current financial industry has brought forth issues of ineffectiveness and inefficiencies that have eroded the benefits associated with the advancements. Overall simplification and concentrated efforts towards activities that add value can assist the banks to improve on cost-cutting, customer service, and enhance consumer retention. The benefits of short turnaround time (TAT) can be substantial (Beyer & Holtzblatt, 1997).

(Gemes, Fletcher, & Aggarwal, 2009)notes that the banking industry has tremendous opportunities to enhance customer service and efficiency as compared to other service industries. Despite these potential, the growth in the sector with respect to the effectiveness and customer service. Compared to other industries offering services, the productivity in the banking sector has seen a varied growth rates. Reduction of the complexities of processes and product offering assists in improving the delivery of service. Improved delivery of services, in turn, improves the Turnaround time (TAT). Banks can achieve quick and improved TAT by simplifying and focusing its efforts in activities that add value to the organization. Turnaround time can be defined as the time that an institution takes to process a request from the time it is made to the time it is delivered. In the banking industry, if the approach for serving clients or employees is ineffective and the processing time for account opening and on-boarding of staff is slow, the bank risks losing its customers to the competitor banks. There are four main functional areas to be considered when reducing the turnaround time in the service industry (Olagunju, 2014).

Firstly, the product management is an area of focus. Due to rapid growth and its strategies, which banks have pursued over the years, there has been established business lines and a mass of products. As a result, the management is spread thinly, and concentration on the main business has reduced. Due to the market competitiveness, banks must concentrate on activities that add value and offers them a competitive edge. To achieve this, the banks must eliminate non-core business lines. For instance, banks that offer non-performing insurance schemes may cut out the insurance plans are a focus on core business line activities like launching campaigns on increasing customer deposits.

The bank may also rationalize and simplify the offering of the product. For instance, account opening, loan processing, and use of digital technology in operations and understanding of the consumer needs (Gemes, Fletcher, & Aggarwal, 2009),

Secondly, distribution is another key area of focus in processing time management. Banks need to leave low-value business lines to direct channels and concentrate on sales. It is not advisable for staff working in banking branches to focus on cashing cheques for clients since it reduces the productivity levels. Alternatively, banks should devise ways to move such transactions away from branch staff and put the burden on electronic and lower-cost channels (Olagunju, 2014). For instance, the financial institutions may create products that affect customer behavior such as telephone-only and internet-only accounts. Self-service technology should be enhanced in the banking branches in order to achieve the shift to direct channels. The employees are motivated to encourage the consumers to use the direct channels. To enhance customer experience and assist the conversion of business leads into actual sales, integration of all sales channels should be prioritized. Through the approach, client data is captured once and ensures effective and efficient service offering.

Thirdly, operations and information technology are among areas that affect TAT. This involves capitalizing on scales. Most financial institutions have fragmented, non-standardized back-office procedures, with varying systems supporting various products and many teams executing same tasks in different locations. To design process efficacies and earn the scale advantages, financial institutions have to simplify, consolidate, and automate the core business, for instance, account opening, within and across topographies. This will cut costs, reduce risks, enhance turnaround time, reduce errors,

and mostly the customer service experience. IT systems should also be made less complex and integrated. Financial institutions can design a national shared services business structure and common standards and policies (Beyer & Holtzblatt, 1997).

For instance, Faulu Microfinance Bank, a member of Old Mutual group, employs the shared services approach where, most of its human resource, IT, and administrative services are managed by the parent company, in this case, Old Mutual Group. This leads to reduced complexities of the IT operating model. Also, the financial institutions must analyze the rationalizing of projects. This involves removing those projects that do not add value to the core business. The projects may not be aligned with the enterprise or the strategic objectives and are inadequately defined. The other projects should then be reprioritized, observing the dynamics and systems capacity. This ensures the bank focusses more deeply on the value adding projects. A simplified approach to projects and project management will also design capabilities the required for successful integration should there be a need.

Lastly, the organizational structure is also an area to be considered in processing time management. Here, the banks need to provide a clarification of the roles and responsibilities of the different members of the organization. In most cases, financial institutions do not have well defined the overall operational model, whether it should be centralized or decentralized. Further, most banks do not have a general view of the philosophy of the institution. The banks oscillate from one model to the other from time to time. This has led the banks not to have a clearly defined approach for the staff (Faulin, Juan, Grasman, & Fry, 2012). Organizational complexity has brought forth the issue of 'shadow employees' who exist in most large organizations. The 'shadow

employees' work within the banks but perform tasks that are duplicated somewhere else. The presence of such issues leads to inefficiencies through increased headcount. To successfully decrease the number of shadow staff, the financial institutions may need to deal with the underlying reasons for their existence (Olagunju, 2014).

Creating an excellent customer or employee service experience is reliant on how fast and accurate their request is processed and delivered. If a bank's approach to customer service or its employees is ineffective, it risks losing its customers to their rivals. The processing time for account opening, loan processing and faster access to other banking services should be shortened. Shortening of TAT, also known as processing time, includes reducing account opening and other banking processes, understanding of customer needs, migrating customer data electronically to various systems and ensuring ease of accessibility, and employing digital technology to replace the manual execution of processes.

Arogyaswamy and Yasai-Ardekani (1997) investigated the role that cutbacks, efficiency improvements and investments in technology play in turnaround time process. They found that reductions and increase in efficiency were critical factors for successful turnaround time as these actions improve customer satisfaction in the short run and allow the company to release resources that may be used elsewhere. (Faulin, Juan, Grasman, & Fry, 2012) found a statistically significant relationship between turnaround time successes; that is turnaround companies were smaller than failed companies were. He suggests that smaller companies may be more successful in enacting successful turnaround time as they can adapt to their changing environment more quickly than large firms can.

However, White (1984, 1989) argues that more major companies are better equipped to raise the additional funds necessary to remain viable due to their previous success in raising external capital. The top management develops and implements turnaround time mechanisms that address the imminent organizational crisis. Top management becomes the change agent to reverse the organizational performance.

The severity of the financial distress influences the ability of the firm to enact an excellent turnaround time to its products and services to customers. If your staff is underworked, they will feel less challenged, under-appreciated, and unimportant. Work has a habit of expanding to fit whatever timeframe is allotted. If your staff is underworked, case handling turnaround time can drag on longer than reasonably expected, and customers will get frustrated. On the service providers themselves, the data collected indicated that they needed to attend to customers on time, with a turnaround time of 5minutes on the average. They also needed to maintain the high level of excellent customer service no matter the circumstances, and they needed to be motivated, either from management or from within (Auluck, 2002).

### **2.3.5 Commercial banks' customers queuing management and customer satisfaction**

The mechanism of the queuing process involves Customers arriving for service, waiting for the service if it is not immediate, and leaving the system as soon as they are served (Albro, 1999). There are six basic properties of queuing processes, which offer an adequate description of a queuing system; arrival pattern of customers, service pattern of servers, a number of service channels, system capacity, and queue discipline. In conventional queuing systems, the arrival pattern of clients is stochastic, and it is, therefore, essential to establish the probability distribution describing the time between

successive customer arrivals (inter-arrival times). In addition, the arrival pattern can differ with time, so we distinguish between stationary and those that are non-stationary in arrival patterns. The same deliberation applies to the service model of servers; a probability distribution is needed to describe the sequence of customer service times.

Queue discipline refers to the way in which customers are chosen for service when a line has formed. The most common subject is first come first served (FCFS), but there are many others such as last come, first served (LCFS) which is mostly used in many inventory systems as it is easier to reach the nearest item. Randomly selecting for service (RSS) is autonomous of the arrival time of the consumer; and some priority schemes, the consumers with higher priority being served ahead of the lower priority customers regardless of the order in which they arrived at the system (Spring, 2009).

(Bennett, 1992) observe that business use customer intimacy to explain the competitive strategies used by firms like Nike, Dell Computer, and Home Depot to rise successfully and grow to excellent brands. They note that these businesses succeeded by redefining customers' value in their respective markets, building systems that delivered more value than the competition and also by raising customer's expectation way beyond the reach of competition. According to them, these firms achieved leadership in their industries by narrowing their focus. They focused on delivering superior value by operational excellence, or customer intimacy, or product leadership. By operational excellence firms aims at delivering products or services at competitive prices and with minimal difficulty or inconvenience (Bennett, 1992).

Customer intimacy involves providing products to match the firms segment and target markets. Product leadership involves offering leading edge products that render rival goods obsolete. They also note that through operational excellence a firm like Dell has been able to undercut Compaq and other PC makers without compromising quality. They also cite the direct connect program was successfully used to transform and reinvent the General Electric (GE). Customer intimacy firms continually tailor and shape products and services to fit an increased definition of quality for the customer. Companies that pursue product leadership strive to produce a continuous stream of innovative products like Apple's iPod and I-phone or Sony's Walkman. Service quality has been defined as customer's overall impressions of an organization's services regarding relative superiority or inferiority (Keaveney, 1995).

Further, service quality is considered to not only meet but also go beyond the customer expectations and should consist of a continuous improvement process, (Kumar & Reinartz, 2006). (Estiri, Hosseini, Yazdani, & Nejad, 2011), notes that consumers evaluate a business 'performance mainly in the process of their interpersonal contacts and interactions. Service quality arises from a comparison of the difference between service expectations developed before an encounter and the performance perceptions gained from the service delivery based on the service quality dimensions (Beyer & Holtzblatt, 1997). They indicated that service quality consisted of five dimensions.

Firstly, tangibles are described as the appearance of physical facilities, equipment personnel, and stationery. The second is Reliability, which is the ability to perform the promised service dependently and accurately. Responsiveness is the third aspect. It is the



willingness to assist customers and offer prompt service. The fourth element is Assurance, which is the ability of the employee or service provider to inspire trust and confidence. The fifth aspect is Empathy and refers to personalized attention that the firm provides to its customers. (Anderson & Sullivan, 1993), explains that customer expectations and the need for services have substantially increased. The trend is attributed to consumers' knowledge ability, their demand for new products, better and more reliable delivery, as well as services that are more responsive. Consequently, to improve competitiveness, *Mtaani* agents have to understand the customers 'needs and expectations and satisfy them by providing excellent services.

Kenya Commercial Bank business model is built around customer focus. Its business tag line is —KCB, making the difference. The bank has endeavored to create a culture to reinforce this strategy. Kenya commercial bank has adopted an open-door marketing strategy where its senior personnel are very readily available to its customers. ([www.kcb.co.ke](http://www.kcb.co.ke)) Commercial banks have assisted their agents to create a fulfilling working environment each by developing an organizational architect that motivates its staff even at the branch level. This strategy not only generates job satisfaction but also creates customer satisfaction due to the swift decision-making. Firms have now realized that long-term growth and survival is dependent on a good relationship with clients.

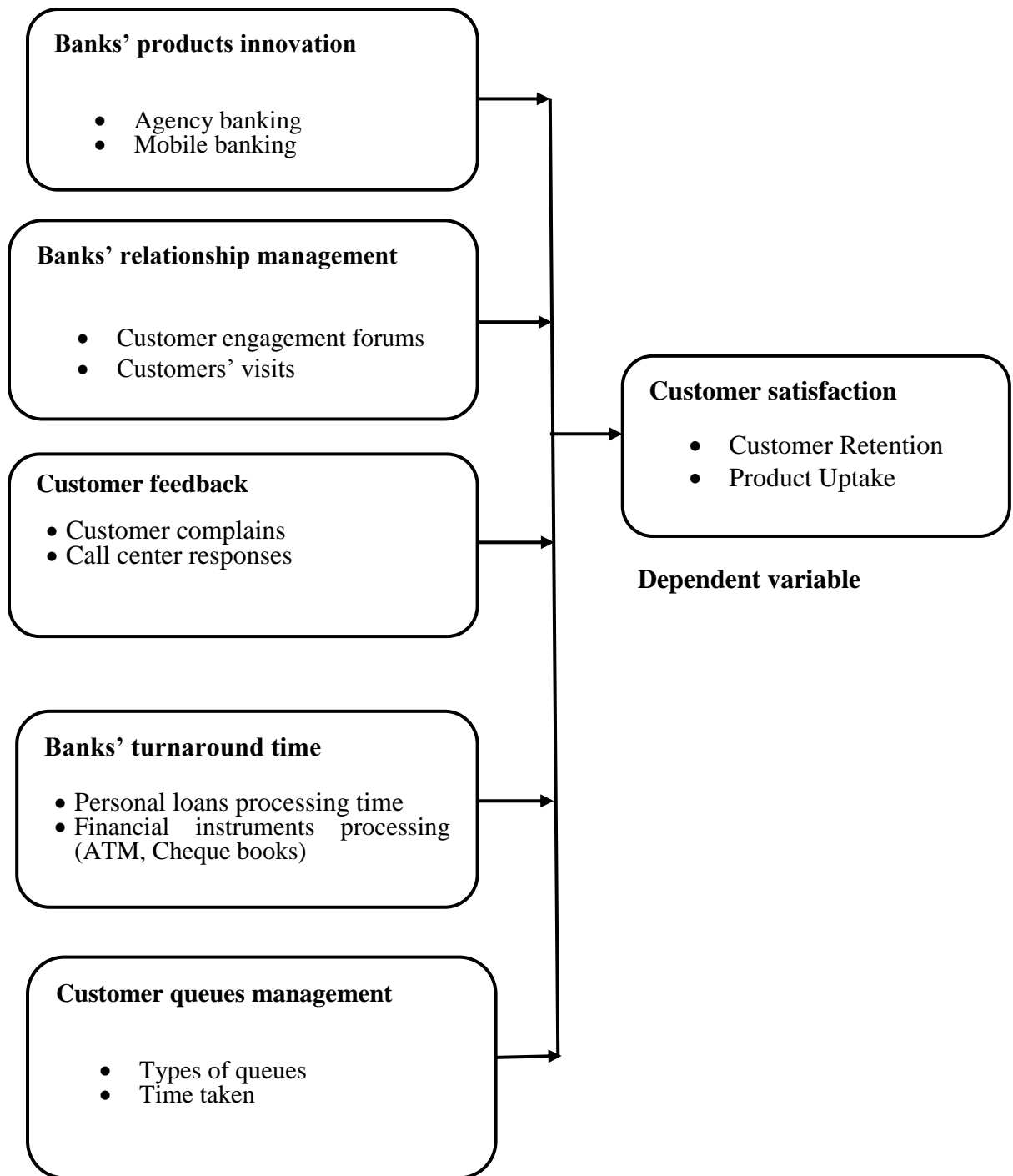
Equity bank has also endeavored to establish a customer-centric approach to business. Within a short period in the market, it has been able to match and even exceed the comparative performance of other earlier market entrants. It has a catch business tagline

that is a selling brand, the listening, caring financial partner|| ([www.equitybank.co.ke](http://www.equitybank.co.ke))  
You must deal with today's customer and tomorrow's customers. They provide the ideas for new products and new applications. They offer the early warning signals regarding your products' quality and timeliness. They know about your competitors. To know your customers is to know your future, (Fox, 2000).

Cooperative bank as well owns its customers. Its business tag line —we are you||, explains it all. The impeccable service quality has endowed the company with an expansive market share that it strives to maintain and retain. The business does this by coming up with new products and services tailor made to benefit all types of its clients. Such products and services include executive banking for senior people in society, mobile and internet banking for remote banking and agency banking to save its clients the costs of having to travel to a branch to obtain bank services, ([www.cooperativebank.com](http://www.cooperativebank.com))  
To be effective, service quality must reflect the dynamics of that environment. Customer service is a series of activities designed to enhance the level of customer satisfaction, that is, the feeling that a product or service has met the customer expectation, (Turban, 2002).

## **2.4 Conceptual framework**

A concept is an image or symbolic representation of an abstract idea. Chinn and Kramer (1999) define a concept as a complex mental formulation of experience. The model of the study is determined in figure 1, where the independent and dependent variables are shown.



**Independent variables**

Figure 2.1 Conceptual framework

Source: Author, 2016

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presented an overview of the methodology that was used to guide the study. It discusses the research design, target population of the study, the sample size and sampling technique, questionnaire, validity and reliability of research instrument, data collection procedure and data analysis.

#### **3.2 Research Design**

The study used descriptive survey design that according to Churchill (1991) is appropriate where the study seeks to describe the characteristics of individual groups, estimate the proportion of people who have certain features and make predictions. Through the descriptive survey, the researcher was able to answer questions relating to the what, why and how of the phenomenon of product innovation and its impact on customer satisfaction.

Descriptive survey research designs are used in preliminary and exploratory studies to enable researchers to collect information, make a summary, present, and interpret data for the purpose of clarification (Orodho, 2003). According to (Mugenda & G.Mugenda, 1992), the rationality of descriptive research is to determine and report the way things are, and it helps in establishing the current status quo of the population under study. The design was chosen for the study due to its ability to ensure maximization of the reliability of data collected.

### **3.3 Target Population**

The study was carried out in Kitui town, in Kitui County, Kenya. The study targeted the active customers who normally visit the 8 commercial banks in Kitui town on daily basis. The study targeted an estimate population consisting 560 customers from NBK, 570 customers from KCB, 580 customers from Equity Bank, 490 customers from BBK, 430 customers from Cooperative Bank, 270 customers from Family Bank, 220 customers from Postbank, and about 160 customers in K-rep bank. ( Central Bank of Kenya, 2015).

### **3.4 Sample size and Sampling Technique**

A sample is “a smaller (but hopefully representative) collection of units from a population used to determine truths about that population” (Field, 2005). Since Kitui town has a huge population, the researcher considered only a sample of the population for the study. The sampling frame for the research study was the customers to the banks in Kitui town, who in the end represented the larger population. The researcher used convenience sampling technique. This is a type of non-probability sampling which involves the sample being drawn from that part of the population which is readily available and convenient. In this case, the researcher will, on the day of data collection, give questionnaires to the customers at each bank branch who visit the bank for transactions each day. Thus, the researcher used the customers who were readily available and at hand for the study. The approach also allowed the researcher to detect relationships between the different phenomena in the study. The study sampled 56 active customers, from NBK, 57 active customers, from KCB, 58 active customers, from Equity, 49 active customers, from BBK, 43 active customers, from Cooperative, 27 active customers, from Family, 22 active customers, from Postbank, and about 16 active

customers in K-rep bank. This represented 10% of the target population according to convenience sampling of a highly homogeneous population.

### **3.5 Data Collection Instruments**

Various data collection instruments were used by the researcher for the various groups to be involved in the study. There was a questionnaire for the bank customers and an interview guide for branch managers of each bank to determine the outcomes of the relationship between the dependent variables in the study, as explained in the subsections below.

#### **3.5.1 Questionnaire**

The questionnaires were first pre-tested to determine its clarity and validity. Nkapa (1997), states that the use of questionnaires is a very common method of data collection in education and in behavioural sciences, due to the relative ease and cost effectiveness with which they are constructed and administered with large samples. The use of questionnaires offers considerable advantages in administration, and presents an even stimulus to large numbers of people simultaneously, providing the researcher with a relatively easy accumulation of data.

#### **3.5.2 Interview schedule**

The branch managers were interviewed on product uptake and customer retention using the interview schedule. This information was used in determining the customer satisfaction with bank service and products.

#### **3.5.3 Validity of Research Instrument**

The help of experts (such as the Research supervisor) determined construct and content

validity of the questionnaire. This was expected to give guidance to ensure that the instruments are constructed in a manner that would not mislead the respondents in the course of providing information. This also ensured that the items in the instruments were a representative of the skills and traits that comprise the area to be measured and to ensure that the research objectives were addressed by the information sought in the instrument.

#### **3.5.4 Reliability of Research Instrument**

The reliability of the research instruments can be tested using test-retest method. This method involves multiple administrators of an instrument to the same people to assess the instrument's consistency and reliability (Davis, 1989). The banks within Kitui town were used for this. To assess the reliability of the questionnaire, the Spearman correlation coefficients were calculated to assess the reliability of the questionnaire. The researcher personally prepared these instruments.

#### **3.6 Data Collection Procedure**

A letter of introduction from the Board of Postgraduate Studies, School of Business Studies, South Eastern University of Kenya (SEKU) was sought. It was then taken to the bank branches for permission. The branch managers of the selected banks were then briefed on the nature of the study and asked for permission to collect data from their customers and staff members. The questionnaires were administered to the bank customers and information gotten further listed for tabulation.

### 3.7 Data Analysis

Data collected was arranged and grouped according to particular research objectives. For every objective, the responses were tabulated in a frequency distribution table. Quantitative data was analysed using descriptive statistics that include determination of the mean, frequency and percentage occurrences where applicable; as well as inferential statistics (Pearson's correlation and multiple regression analysis) as (Orodho, 2003) pointed out. Collected raw data was coded and the responses keyed to a package SPSS for processing. Analysed and discussions according to the specific objectives from the responses was done.

Finally, triangulation was done on the collected data. Responses on similar themes or objectives, emanating from different respondents were compared to determine their convergence or divergence. Where certain sentiments from different respondents will converged (agree). Results were presented in simple descriptive frequency tables.

The regression model was.

$$Y = A + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \alpha \text{ where}$$

$\beta_1, \beta_2, \beta_3, \beta_4$  and  $\beta_5$  is the regression coefficient of the independent variables

Where Y = Dependent variable (Customer satisfaction)

$X_1$  = product innovation

$X_2$  = relationship management

$X_3$  = customers feedback

$X_4$  = turnaround time

$X_5$  = Queuing management



**Table3.1 Measurement of Variables**

<b>Variable</b>	<b>Measurement</b>
Product Innovation Practices	<ul style="list-style-type: none"><li>- Bank agents usage by customers</li><li>- Number of customers who sign for mobile banking</li><li>- Usage of internet banking by customers</li><li>- Frequency of ATM machines up time.</li><li>- Reliability of EFT and RTGS services</li></ul>
Relationship Management	<ul style="list-style-type: none"><li>- Customer engagement forums held</li><li>- Customer visits by bank relationship manager.</li></ul>
Customer feedback	<ul style="list-style-type: none"><li>- Customer complaints and complements.</li><li>- Social media responses.</li><li>- Call center responses</li></ul>
Turnaround time	<ul style="list-style-type: none"><li>- Personal loans processing time</li><li>- Order and delivery period of ATM cards and cheque books</li></ul>
Queue management	<ul style="list-style-type: none"><li>- Time taken in the queue</li><li>- Nature of customer queues</li></ul>

## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND DISCUSSIONS**

#### **4.1 Introduction**

The chapter presents collected data, analysis and discussion of the results. The general objective for this study was to find out the internal factors affecting customer satisfaction of commercial banks in Kitui town. The objectives of this study were; to determine the effect of commercial banks' product innovation, determine the effect of commercial banks' relationship management, to find out the effect of commercial banks' customer feedback, to determine the effect of commercial banks' turnaround time and to find out the effect of commercial banks' queuing management system on customer satisfaction in Kitui town.

Questionnaires were used to get information from 56 active customers from NBK, 57 active customers from KCB, 58 active customers from Equity, 49 active customers from BBK, 43 active customers from Cooperative, 27 active customers from Family, 22 active customers from Postbank, and 16 active customers in K-rep bank making a total of 328 respondents. Interview schedules were also used to get information from bank branch customers.

Out of the 328 questionnaires distributed the researcher was able to collect 300 questionnaires which was 91.5% return rate. This was adequate according to Mugenda and Mugenda (1999) who proposed a return rate of at least 50% as adequate.

## 4.2 Respondents Demographic Data

From the questionnaires, the respondents were required to indicate their demographic information in terms of gender, age, education, level of education and experience. The responses were reported in this section.

### 4.2.1 Respondents' Distribution by Gender

The researcher sought information concerning the gender distribution of the respondents to ascertain whether the study was gender sensitive. The results were presented in table 4.1.

**Table 4.1 Respondents' Distribution by Gender**

<b>Categories</b>	<b>Responses</b>	<b>Percentage</b>
Male	206	66.7
Female	94	33.3
<b>Total</b>	<b>300</b>	<b>100</b>

Table 4.1 indicates respondents' distribution by gender. It revealed that majority 206 (66.7%) of the bank customers interviewed were male while 33.3% were female in Kitui town. This shows that there was a gender balance in distribution of bank customers. However the bank customers' gender might have no influence on results of the study.

#### 4.2.2 Age Distribution of Respondents

The researcher further sought to establish the age distribution of respondents. The responses were presented in table 4.2.

**Table 4.2**Age Distribution of Bank Customers

Age bracket	Frequency	Percentage
Less than 30	25	8.3
30 – 34	42	14.0
35 – 39	86	28.7
40 – 44	175	49.0
<b>Total</b>	<b>300</b>	<b>100.0</b>

Table 4.3 revealed that majority 175 (49.0%) of the bank customers were 40-44 years of age while the minority 25 (8.3%) were less than 30 years of age, 86(28.7%) 35-39 years and 42(14%) 30-34 years. This age indicates that the bank customers interviewed were not very old and therefore were in a better position to give information concerning bank customers' satisfaction.

#### 4.2.3 Respondent's Academic Qualification

The researcher sought to establish the academic qualification of the respondents. The responses were presented in Table 4.4.

**Table 4.3: Bank Customers' Academic Qualification**

<b>Age in years</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Ph.D	3	1.0
Masters	36	12.0
Degree	88	26.0
Diploma	78	29.3
Others	95	31.7
<b>Total</b>	<b>300</b>	<b>100.0</b>

Data on Table 4.4 shows Bank Customers' Academic Qualification. It revealed that majority 95 (31.7%) of the bank customers interviewed had other qualification while 78 (29.0%) had a diploma as their highest academic qualification and 88 (26.0%) of bank customers had Masters. It was however revealed that the least of bank customer interviewed had a PhD3 (1.0%).

### **4.3 Correlations**

The researcher further used the Pearson correlation, ranging from negative one to positive one inclusive ( $-1 \leq r \leq +1$ ) to test the association between product innovation, relationship management, customer feedback, turnaround time, queue management and customer satisfaction. A correlation of -1 meaning perfect negative correlation, +1 shows perfect positive correlation and 0 means no association.

**Table 4.4 : Correlations**

		Product innovation	Relations hip managem ent rate	Customer feedback	Turnaroun d time	Queuin g	Customer satisfactic n
Product innovation	Pearson	1	.655**	.423**	0.663	.551**	0.775**
	Correlation						
	Sig. (2-tailed)		.000	.000	.724**	.000	.000
	N				.000		300
Relationship management	Pearson	.655**	1	.510**		.719**	.0.812**
	Correlation						
	Sig. (2-tailed)	.000		.001	.759**	.000	.012
	N				.000		300
Customer feedback	Pearson	.423**	.510**	1		.814**	0.701**
	Correlation						
	Sig. (2-tailed)	.001	.000		.814**	.001	.000
	N				.001	0.332	300
Turnaround time	Pearson	.663**	.759**	0.551**			.882**
	Correlation						
	Sig. (2-tailed)	.000	.012	.000	1	0.000	.000
	N						300
Queuing	Pearson	.551**	.719**	0.814**	.332	1	.651**
	Correlation						
	Sig. (2-tailed)	.000	.012	.000	.000		.000
	N						300

The results indicated that there was a strong positive correlation (association) of  $r = 0.775$  between product innovation and customers' satisfaction. There was also a strong positive association ( $r = 0.812$ ) between relationship management and customers' satisfaction. Also there was a strong positive association ( $r = 0.701$ ) between banks customer feedback

and customers' satisfaction. There was a strong positive association ( $r = 0.882$ ) between banks turn around and customers' satisfaction. There was also a strong a strong positive association between ( $r = 0.651$ ) between customer queuing and customers' satisfaction.

The respondents were requested to indicate the services and products provided by their banks as shown in Table 4.5.

**Table 4.5 Services and Products Provided in your Bank.**

<b>Bank services</b>	<b>Presence</b>	<b>Absence</b>
ATM Services	300(100%)	0(0%)
Mobile Banking	284(94.7%)	16(5.3%)
Internet Banking	153(51%)	147(49%)
EFT and RTGS	300(100%)	0(0%)
Agency banking	256(85.3%)	44(14.7%)

Information on Table 4.5 indicates revealed that the bank services available in Kitui town. All the respondents 300(100%) indicated that their banks had ATM services and EFT and RTGS, 284(94.7% had mobile banking while 256(85.3% had agency banking. The respondents were further required to rate the bank services in scale of 1 to 5 where 1 represents very reliable, 2 –reliable, 3 – moderately reliable, 4 – unreliable and 5 represents Very unreliable. The responses were filled in Table 4.6. It was established that majority (66.7%) of the respondents indicated that ATM Services were relatively more reliable compared to the other services (mobile banking, internet banking, EFT and



RTGS) and agency banking. This was followed by mobile banking and agency banking which was just reliable with (53.8%) and 50.7% respectively. It was also noted that the internet banking was moderately reliable (40%).includes ATM, mobile banking, internet banking, EFT and RTGS.

**Table 4.6: Customer Relationship Management**

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Customer engagem forums are useful making busin decisions.	242(80.7%)	50(16.7%)	8(2.6%)	0(0%)	0(0%)
The bank relationship manager visits my work place whenever I need him.	67(22.3%)	96(32%)	56(18.7%)	41(13.7%)	40(13.3)
My bank relates well with all customers.	96(32%)	123(41%)	57(19%)	24(8%)	0(0%)

The respondents were further required to rate the bank customer feedback on a scale of 1 to 5 where 1 represents very reliable, 2 –reliable, 3 – moderately reliable, 4 – unreliable and 5 Very unreliable. Although the customer feedback existent in all the branches, it was established that according to a majority 136 (45.3%) of the respondents social media account were relatively very reliable followed by Complaints/complement box 113 (37.7%) which were reliable. It was however noted that Customer Care call center was the most unreliable (25.3%).Impeccable customer service and feedback has endowed the business with an expansive market share that it strives to maintain and retain.

**Table 4.7: Reliability of Bank Customer Feedback**

Reliability	1	2	3	4	5
Customer Care call center	61(20.3%)	97(32.3%)	30(10%)	76(25.3%)	36(12%)
Complaints/complement box	53(17.7%)	113(37.7%)	45(15%)	50(16.7%)	39(13%)
Social media accounts	136(45.3%)	98(32.7%)	30(10%)	36(12%)	0(0%)

The respondents were further requested to indicated the extent to which they agreed with the statements given in Table 4.12 concerning banks turnaround time on a scale of 1-5 where: 1-Strongly Agree; 2- Agree; 3-Not sure; 4-Disagree; 5-Strongly disagree. The results shows that majority (68.3%) of respondents agreed that ATM card orders are delivered in good time while 65.3% agreed that Cheque book orders are delivered in good time. It was however established that 14.3% of the respondents disagreed with the statement that banks always keeps promises.

**Tale 4.8: Banks Turnaround Time**

Statement	1	2	3	4	5	
Personal loans are processed in agreed upon time.	184(61.3%)	100(33.3%)	16(5.4%)	0(0%)	0(0%)	The
ATM card orders are delivered in good time.	95(31.7%)	205(68.3%)	0(0%)	0(0%)	0(0%)	resear cher furthe r
Cheque book orders are delivered in good time.	100(33.3%)	196(65.3%)	4(1.7%)	0(0%)	0(0%)	reque sted the respo
My bank always keeps promises.	89(29.7%)	168(56%)	0(0%)	43(14.3%)	0(0%)	ndent s to indica

te the extent to which they agreed with the statements given relating to queuing management in Table 4.15 on a scale of 1-5 where: 1-Strongly Agree; 2- Agree; 3-Not sure; 4- Disagree 5-Strongly disagree rate the following as they system. It was established that majority 67.7% agreed that the queues are very long in their bank. This was followed by 37.3% who agreed that Advantage banking centers are more reliable. Queue discipline refers to the way in which customers are chosen for service when a line has formed. The

most common subject is first come first served (FCFS), but there are many others such as last come, first served (LCFS) which is mostly used in many inventory systems as it is easier to reach the nearest item. Randomly selecting for service (RSS) is autonomous of the arrival time of the consumer; and some priority schemes, the consumers with higher priority being served ahead of the lower priority customers regardless of the order in which they arrived at the system (Spring, 2009).

**Table 4.9: Queuing Management**

<b>Factor</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
My bank has embraced an automated queueing management system.	93(31%)	30(10%)	0(0%)	100(33.3%)	25(25.7%)
It takes very short time to be served in my bank's physical queueing.	141(47%)	42(14%)	0(0%)	89(29.7%)	28(9.3%)
The queues	21(7%)	203(67.7%)	12(4%)	30(10%)	34(11.3%)

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are very long

in my bank.

Advantage      128(42.7%)   112(37.3%)   0(0%)      30(10%)      30(10%)

banking

centers      are

more reliable

---

#### 4.4 Multiple regression results

The researcher further sought to established that the contribution of each of the independent variables; (product innovation, relationship management, customers feedback, turnaround time, and queuing management) to Customer satisfaction. The model summary was presented first in Table

**Table 4.10: Model summary**

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Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.886 <sup>a</sup>	.785	.798	.15066

---

a. Predictors: (Constant), product innovation, relationship management, customers' feedback, and turnaround time and queuing management.

The adjusted R square is 0.798 implying 79.8% of variation in customers' satisfaction is explained by the independent variables (product innovation, relationship management, customers' feedback, turnaround time, and queuing management).

Further the researcher presented the ANOVA in Table 4.11

**Table 4.11: ANOVA**

	Sum	of			
	Squares	Df	Mean Square	F	Sig.
Between Groups	2.212	1	0.451	10.674	0.000
Within Groups	1.111	299	0.016		
Total	3.323	300			

Dependent Variable: Customer satisfaction

The study used ANOVA to establish the significance of the regression model from which an f-significance value of  $p < 0.001$  was established. This shows that the regression model has a less than 0.001 likelihood (probability) of giving a wrong prediction. Hence the regression model has a confidence level of 95%.

The researcher also presented the regression model.

The model was obtained as;

$Y = 0.445 + 0.352X_1 + 0.821X_2 + 0.445X_3 + 3.58X_4 + 2.471X_5$ . The coefficients were presented in Table 4.11.

**Table 4.12 Coefficients of Commercial Banks and Customer Satisfaction**

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
(Constant)	.445	.102		17.150	.000
Product innovation (X <sub>1</sub> )	.352	.174	.541	3.81	.001
Relationship management (X <sub>2</sub> )	.821	.063	.449	1.221	.001
Board customers feedback (X <sub>3</sub> )	.445	.050	.938	3.81	.000
Turnaround time (X <sub>4</sub> )	3.58	.048	.332	32.21	.001
Queuing management (X <sub>5</sub> )	2.471	0.552	1.224	8.741	0.000

a. Dependent Variable: customer satisfaction

#### **4.4.1 Product Innovation and Bank Customer Satisfaction**

The first objective for this study was to determine the effect of commercial banks' product innovation on customer satisfaction in Kitui town. The coefficient for product innovation was 0.352. This means that a unit change in product innovation will result to a change in customer satisfaction by a factor of 0.352 at 5% significant level.

Product innovations involving derivatives can improve efficiency by expanding opportunities for risk sharing, lowering transaction costs and reducing asymmetric information and agency costs (Merton, 1995). Product innovations promote economic growth by allocating capital where it can be most productive.

#### **4.4.2 Commercial Banks' Relationship Management and Customer Satisfaction**

The second objective for this study was to examine the effect of commercial banks' relationship management on customer satisfaction in Kitui town. The coefficient for product innovation was 0.821. This means that a unit change in banks relationship management will result to a change in customer satisfaction by a factor of 0.821 at 5% significant level.

These results are agrees with Perreault & McCarthy (2002) who argued that Customer relationship management is an approach where the company improves the marketing effort with information from a detailed customer database (Perreault & McCarthy, 2002). The underlying purpose of CRM is to unlock the value of the relationship assets in a company to enable acceleration in revenue and profit growth (Eisingerich, and Bell, 2006). Utilizing CRM in meeting the customers' immediate and long-term needs enables companies to build customer loyalty and long-term relationships to the benefit of both parties. The implementation of CRM systems in the banking sector provides the means to conduct interactive, relevant and personalized communications with customers.

#### **4.4.3 Commercial Banks' Customer Feedback and Customer Satisfaction**

The third objective for this study was to find out the effect of commercial banks' customer feedback on customer satisfaction in Kitui town. The coefficient for customer feedback was 0.445. This means that a unit change in customer feedback will result to a change in customer satisfaction by a factor of 0.445 at 5% significant level.

This agrees with Porter (2008) who argued that customer expectations and demand for services have substantially increased. As consumers become better educated, they



demand new products, better and more reliable delivery, as well as more responsive services; As a consequence, to improve competitiveness, “mtaani” agents have to understand the customers’ needs and expectations and satisfy them by providing excellent services. These results also agree with Tumi (2005) who argued that understanding the nature of the service one provides to customers allows for an appreciation of how the customers see the services provided. According to Tumi (2005), in any customer service interaction, the perception of customers is crucial to one’s ability to ensure that they are satisfied beyond expectation. This helps to give customers not what is obvious but also fulfill a multitude of less obvious customer needs (Tumi, 2005).

#### **4.4.4 Commercial Banks’ Turnaround Time and Customer Satisfaction**

The fourth objective for this study was to determine the effect of commercial banks’ turnaround time on customer satisfaction in Kitui town. The coefficient of turnaround time was 3.58 which was the highest coefficient. This means that a unit change in turnaround time will course a change in customer satisfaction by a factor of 3.58 at 5% significant level which is the greatest contribution to the model.

These results agrees with Gemes, Fletcher, & Aggarwal, (2009) who observes that the sophisticated outlook of the banking industry has given rise to the changing ranks of customer service and inefficiency. From the client's standpoint, it is an unfortunate nonetheless accepted fact of practice that service from a bank can be below the optimal levels. Additionally, over the past couple of years, the banking industry has not witnessed significant developments in its cost-to-revenue ratios, although cost-cutting efforts focused around merging, subcontracting, offshoring, and rationalization with suppliers. (Beyer & Holtzblatt, 1997) concurred that the compound nature of the current financial

industry has brought forth issues of ineffectiveness and inefficiencies that have eroded the benefits associated with the advancements. Overall simplification and concentrated efforts towards activities that add value can assist the banks to improve on cost-cutting, customer service, and enhance consumer retention. The benefits of short turnaround time (TAT) can be substantial (Beyer & Holtzblatt, 1997).

#### **4.4.5 Commercial Banks' Queuing Management System and Customer Satisfaction**

The fifth objective for this study was to find out the effect of commercial banks' queuing management system on customer satisfaction in Kitui town. The coefficient of queuing management system was 2.471 which was the second highest coefficient. This means that a unit change in turnaround time will course a change in customer satisfaction by a factor of 3.58 at 5% significant level which is the greatest contribution to the model.

These results agrees with Bennett (1992) who observes that business use customer intimacy to explain the competitive strategies used by firms like Nike, Dell Computer, and Home Depot to rise successfully and grow to excellent brands. They note that these businesses succeeded by redefining customers' value in their respective markets, building systems that delivered more value than the competition and also by raising customer's expectation way beyond the reach of competition. According to them, these firms achieved leadership in their industries by narrowing their focus.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter is discussing the summary of the findings, conclusions from the findings, recommendations from the study and suggestions for further research.

#### 5.2 Summary of the Findings

The regression results for this study shows that a unit change in turnaround time will lead to a positive change in customer satisfaction and that turnaround time has the greatest contribution to the model. Also a unit changes in customers queuing management will lead to a significant change in customer satisfaction. A unit change in product relationship management will lead to a change in customer satisfaction significantly. Also unit change in customer's feedback will result to a positive change in customer satisfaction while a unit change in product innovation will lead to a positive change in customer satisfaction.

The adjusted R squared shows that the variation in customers' satisfaction are significantly explained by the independent variables (product innovation, relationship management, customers feedback, turnaround time, and queuing management).

#### 5.3 Conclusions from the Study

Based on the findings of this study the researcher concluded that:-

There is a positive relationship between banks' product innovation and customer' satisfaction. The commercial banks' product innovation significantly influences

on customer satisfaction. This is because customers want to embrace the use of new technology which is brought by innovations.

The commercial banks' relationship management significantly influences customer satisfaction.

The commercial banks' customer feedback significantly influences customer' satisfaction and that there is a positive banks relationship between customer' satisfaction.

There is a positive relationship between commercial banks' turnaround time and customer satisfaction

There is a positive relationship between commercial banks' queue management and customer satisfaction.

#### **5.4 Recommendations from the Study**

Based on the findings of this study, the researcher made the following recommendations:-

The bank should frequently carry out customer satisfaction surveys to find out the opinions of its customers. Their feedback can be used to improve services and products offered.

The bank should also improve its turnaround time as this will help shorten queues and waiting time of customers.

The bank should shorten the time that it takes to make decisions on customer requests. This can be done by improving the systems that are in use or through restructuring so as to get rid of what is not required.

### **5.5 Suggestions for Further Research**

The general objective for this study was to find out the internal factors affecting customer satisfaction of commercial banks in Kitui town. Further research can be done on the factors influencing banks innovation, factors influencing the relationship management, factors influencing turnaround time as well as external factors influencing customers' satisfaction.

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## **Appendix I: Introduction Letter**

Robert Kitonga Nguli,  
South Eastern Kenya  
University  
Kitui.

The Branch Manager,

Dear Sir/Madam,

### **RE: RESEARCH IN YOUR ORGANIZATION**

I am a Master of Business Administration student of South Eastern Kenya University currently carrying out a research on the extent to which customers are satisfied with commercial banks' products in Kitui town, Kitui County.

Your bank has been selected to be part of the study. I would like to request for your permission and support to fill the study questionnaire and conduct interviews within your organization.

The information collected was treated with utmost confidentiality and was strictly for the purpose of the study. Thank you.

Yours faithfully,

Robert Kitonga Nguli

ADM

## Appendix II: Introduction letter from the university



**SOUTH EASTERN KENYA UNIVERSITY**  
OFFICE OF THE DIRECTOR  
BOARD OF POST GRADUATE STUDIES

P.O. BOX 170-90200  
KITUI, KENYA  
Email: [info@seku.ac.ke](mailto:info@seku.ac.ke)

TEL: 020-2413859 (KITUI)  
020-2531395 (NAIROBI)  
E-mail: [directorbps@seku.ac.ke](mailto:directorbps@seku.ac.ke)

Our Ref: D61/KIT/20413/2014

Date: Wednesday, February 03, 2016

Nguli Robert Kitonga  
Reg: D61/KIT/20413/2014  
Master of Business Administration  
C/O Dean, School of Business and Economics

Dear Nguli,

**RE: PERMISSION TO PROCEED FOR DATA COLLECTION**

This is to acknowledge receipt of your Master in Business Administration Proposal document entitled, "*Internal factors affecting customer satisfaction on commercial Banks in Kitui Town*".

Following a successful presentation of your Master Proposal, the School of Business and Economics in conjunction with the Directorate, Board of Post graduate Studies (BPS) have approved that you proceed on and carry out your research data collection in accordance with your approved proposal.

During your research work, you will be closely supervised by Dr. Jared Ariemba and Mrs. Regina Wambua. You should ensure that you liaise with your supervisors at all times. In addition, you are required to fill in a Progress Report (**SEKU/ARSA/BPS/F-02**) which can be downloaded from the University Website.

The Board of Postgraduate Studies wishes you well and a successful research data collection as a critical stage in your Master of Business administration.

*For Kitui*

Prof. Cornelius Wanjala  
Director, Board of Postgraduate Studies

Copy to: Deputy Vice Chancellor, Academic, Research and Students Affairs  
Dean, School of Business and Economics  
Chairman, Department of Business & Entrepreneurship  
Dr. Jared Ariemba  
Mrs. Regina Wambua  
Director, Kitui Campus  
BPS Office- To file

### **Appendix III: Respondents Questionnaires**

The aim of this study is to investigate the internal factors affecting customer satisfaction of commercial banks in Kitui town, Kenya. The information that you will give is confidential and will only be used for the purpose of this study.

#### **Instructions to the Respondent**

1. *Please answer all questions in this questionnaire.*
2. *Do not write your name anywhere on this questionnaire.*
3. *Make the answers as confidential as possible after the exercise.*
4. *Tick your appropriate choice and write down the brief statements in the open-ended questions.*

**Guidelines: Use a tick (√) to select your correct value among the multiple choice provided**

#### **Section I: Socio-Demographic Data of the Respondents**

1. What is your gender?
  - a) Male ( )
  - b) Female ( )
  
2. What age bracket do you fall under?
  - a) Less than 30 years ( )
  - b) Between 30-34 years ( )
  - c) Between 35-39 years ( )
  - d) Between 40-44 years ( )
  - e) Over 45 years ( )

3. What is your level of Education?

- a) PhD ( )
- b) Masters ( )
- c) First degree ( )
- d) Diploma ( )
- e) Others ( )

4. How long have you worked in your current station?

- a) Less than 3 years ( )
- b) 4 - 6 years ( )
- c) 7- 9 years ( )
- d) Over 9 years ( )

**Section II: Commercial banks' product innovation and customer satisfaction**

5. From the list below, tick the service and products provided in your bank.

---

<b>Service and products</b>	
1	ATM Services
2	Mobile Banking
3	Internet Banking
4	EFT and RTGS
5	Agency Banking

---

6. On a scale of 1 to 5 where **1** represents **very reliable** and **5** represents **Very unreliable** rate these products.



---

<b>Services and products</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
------------------------------	----------	----------	----------	----------	----------

ATM Services

Mobile Banking

Internet Banking

EFT and RTGS

Agency Banking

---

7. On a scale of 1-5 where: 1-Strongly Agree; 2- Agree; 3-Not sure; 4-Disagree 5-Strongly disagree, how do you agree with these statements?.

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1 The ATM machines are always in service.					
2 Internet banking transactions are more effective					
3 EFT and RTGS services are more reliable of payments compared to hard cash					
4 Agency banking is reliable and provides all the necessary services.					

---

**Section III: Commercial banks relationship management and customer satisfaction (tick on the box and comment appropriately)**

8. From the table below, tick the mode of relationship management provided in your bank.

---

**Mode**

Customer engagement forums

Customer visits.

9. On a scale of 1 to 5 where, **1 – Strongly Agree; 2 – Agree; 3 – Not Sure; 4 – Disagree; 5 –Strongly Disagree** how do you agree with these statements?.

---

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1 Customer engagement forums are useful in making business decisions.					
2 The bank relationship manager visits my work place whenever I need him.					
3 My bank relates well with all customers.					

---

**Section IV: Effect of commercial customers’ feedback and customer satisfaction**

10. From the table below, tick the customer feedback mode provided in your bank.

---

**Feedback mode**

1 24-hour Customer Care call center

---

- 
- 2 Suggestion box.
  - 3 Social media accounts
- 

11. On a scale of 1 to 5 where **1** represents **very reliable** and **5** represents **Very unreliable** rate how reliable are the modes used in customer feedback.

---

	1	2	3	4	5
Customer Care call center					
Complaints/complement box					
Social media accounts					

---

12. On a scale of 1 to 5 where, **1 – Strongly Agree; 2 – Agree; 3 – Not Sure; 4 – Disagree; 5 –Strongly Disagree** how do you agree with the statements on customer feedback?.

---

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1 Customer feedback is encouraged by my bank					
2 The bank gives prompt feedback regarding customer queries.					
3 My feedback concerning bank					

---

---

products is valued by the bank.

---

**SECTION VI: Banks turnaround time and customer satisfaction (Tick on the appropriate box)**

13. Does your bank exceed your service expectations?

Yes ( )

No ( )

14. On a scale of 1-5 where: 1-Strongly Agree; 2- Agree; 3-Not sure; 4-Disagree: 5-Strongly disagree, rate the following statements.

---

	1	2	3	4	5
1 Personal loans are processed in agreed upon time.					
2 ATM card orders are delivered in good time.					
3 Cheque book orders are delivered in good time.					

---

---

4 My bank always keeps promises.

---

**Section V: Effect of queue management on customer satisfaction**

15. Tick the queuing management systems which are provided in your bank.

---

**Queuing Management System**

- 1 Physical Queuing
  - 2 Automated Queuing System
  - 3 Advantage banking centers
- 

16. On a scale of 1-5 where: 1-Strongly Agree; 2- Agree; 3-Not sure; 4- Disagree 5- Strongly disagree, rate the following as they relate to queuing management system.

---

<b>Factor</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1 My bank has embraced an automated queueing management system.					
2 It takes very short time to be served in my bank's physical queueing.					
3 The queues are very long in my bank.					
4 Advantage banking centers are more reliable					

---

#### **Appendix IV: Branch Manager's Interview schedule**

The aim of this study is to investigate the internal factors affecting customer satisfaction of commercial banks in Kitui town, Kenya. The information that you will give is confidential and will only be used for the purpose of this study.

#### **Section I: Product uptake experience**

1. On a scale of 1 to 5 where **1** represents **very satisfied** and **5** represents **Very dissatisfied** rate customers satisfaction with personal loans in the last three years ( i.e. year 1 is the current year).

---

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Year 1					
Year 2					
Year 3					

---

2. On a scale of 1 to 5 where **1** represents **very satisfied** and **5** represents **Very dissatisfied** rate customers satisfaction with ATM service in the last three years ( i.e. year 1 is the current year).

---

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Year 1					
Year 2					
Year 3					

---

3. On a scale of 1 to 5 where **1** represents **very satisfied** and **5** represents **Very dissatisfied** rate customers satisfaction with Internet banking in the last three years ( i.e. year 1 is the current year).

---

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Year 1					
Year 2					
Year 3					

---

**Section II: Customer retention**

4. What mechanisms has the bank been employing in ensuring high customer retention in the last three years

---

	<b>Mechanisms</b>
Year 1	
Year 2	
Year 3	

---

5. On a scale of 1 to 5 where **1** represents **very greatly** and **5** represents **Very lowly** rate how customers satisfaction has affected customer retention in the last three years ( i.e. year 1 is the current year).



---

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Year 1					
Year 2					
Year 3					

---

6. On a scale of 1 to 5 where **1** represents **very greatly** and **5** represents **Very lowly** rate how product innovation has affected customer retention in the last three years ( i.e. year 1 is the current year).

---

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Year 1					
Year 2					
Year 3					

---

7. On a scale of 1 to 5 where **1** represents **very greatly** and **5** represents **Very lowly** rate how relationship management has affected customer retention in the last three years ( i.e. year 1 is the current year).

---

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Year 1					
Year 2					
Year 3					

---

8. On a scale of 1 to 5 where **1** represents **very greatly** and **5** represents **Very lowly** rate how customer feedback has affected customer retention in the last three years ( i.e. year 1 is the current year).

---

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Year 1					
Year 2					
Year 3					

---

9. On a scale of 1 to 5 where **1** represents **very greatly** and **5** represents **Very lowly** rate how turnaround time has affected customer retention in the last three years ( i.e. year 1 is the current year).

---

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Year 1					
Year 2					
Year 3					

---

10. On a scale of 1 to 5 where **1** represents **very greatly** and **5** represents **Very lowly** rate how queuing management system has affected customer retention in the last three years ( i.e. year 1 is the current year).

---

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Year 1					
Year 2					
Year 3					

---