

**THE INFLUENCE OF SERVICE QUALITY ON CUSTOMER
RETENTION IN COMMERCIAL BANKS IN TANZANIA:
THE CASE OF CRDB BANK IN DAR ES SALAAM REGION**

By

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**A Dissertation Submitted in Partial Fulfillment of the Requirements for Award of
the Degree of Master of Business Administration (MBA - CM) of Mzumbe
University**

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **The influence of Service Quality on Customer Retention in Commercial banks in Tanzania: The Case of CRDB bank in Dar es salaam region**, in partial fulfillment of the requirements for award of the degree of Master of Business Administration in Corporate Management of Mzumbe University.

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DEDICATION

This dissertation is dedicated to my beloved parents Mr. Richard Mwikwabhi Mazira (Father) and Josephine Kajenje Majabhe (Mother) for their financial support and for instilling in me values of education from my very early age. God bless them abundantly.

ABBREVIATION AND ACRONYMS

C.A	Competitive Advantage
CM	Corporate Management
MBA	Master of Business Administration
MU	Mzumbe University
PFFF	Porters Five Forces Framework
SE VQUAL	Service quality model
CRDB	Cooperative and Rural Development Bank
SPSS	Statistical Package for Social Sciences
TWB	Tanzania Women Bank
ATM	Automatic Telegraphic Money
BFIA	Banking Financial Institution Act
POS	Point Of Sales
NBC	National Bank of Commerce
PBZ	People Bank of Zanzibar

ABSTRACT

This study intended to assess the influence of service quality on customer retention. The SERVQUAL model was used to analyze data. The study investigated the influence of service quality on customer retention by CRDB bank in Dar es Salaam. Statistical Package for Social Sciences Vision 16.0 (SPSS) was used to process and analyze data where descriptive statistics were calculated.

The research findings revealed that, overall, service quality provided by CRDB bank influences customer retention. Tangibles of CRDB bank were found to be the variable which influences customer retention the most, followed by responsiveness, Empathy, Reliability, and lastly Assurance.

The study recommends as follows: CRDB bank should maintain tangibles of the bank since they were found to be the most important variable which make customers remain loyal to the bank. For responsiveness of bank employees it is recommended that the management of CRDB bank should make sure that employees should respond to customer needs and queries efficiently. The management can do this through training especially on the aspect of responsibility of bank employees to give, accurate and prompt solutions to customer problems. It is further recommended that the bank should improve on reliability of bank services. However it is recommended that employees be more empathetic to customers. This will make customers feel comfortable with the bank. Lastly, it is recommended that the bank should increase the number of ATM machines and expand network coverage in Dar es Salaam in order to reduce the incidence of queues and unnecessary delays in provision of bank services in the city.

TABLE OF CONTENTS

CERTIFICATION	i
DECLARATION AND COPYRIGHT.....	ii
ACKNOWLEDGMENT.....	iii
DEDICATION	iv
ABBREVIATION AND ACRONYMS	v
ABSTRACT	vi
TABLE OF CONTENTS.....	vii
CHAPTER ONE	1
BACKGROUND OF THE STUDY.....	1
1.1 Introduction	1
1.2 Historical Background of Commercial Banks in Tanzania.....	1
1.2.1 CRDB Bank in Tanzania	2
1.3 Problem Statement	3
1.4. General Objective	4
1.4.1 The Specific Objectives.....	4
1.5 Research specific questions	5
1.6 Significance of the study	5
1.7 Scope of the Study	6
1.8 Limitation of the Study	6
1.9 Organization of the Dissertation	6
CHAPTER TWO	7
LITERATURE REVIEW.....	7
2.1 Introduction	7
2.2 Theoretical Literature.....	7

2.2.1. Concept of Quality	7
2.2.2. Concept of Service	8
2.2.3 Service Performance	9
2.2.4 Bank Services	9
2.2.5. Service Quality.....	9
2.2.6 Perceived Service Quality	10
2.2.7 Customer Satisfaction	10
2.2.8 Customer Retention.....	11
2.2.9 Complaint Handling	11
2.2.10 Service Quality Model.....	12
2.2.10.1. Gronroos Service Quality Model	12
2.2.10.2. Performance-only approach.....	13
2.2.10.3. Parasuraman-Zeithaml-Berry Service Quality gap model.....	13
2.11. SERVQUAL Model.....	15
2.2.12. Measuring Service Quality using SERVQUAL Model	16
2.2.12.1. Tangibles.....	16
2.2.12.2. Reliability	16
2.2.12.3. Responsiveness	17
2.2.12.4. Assurance.....	17
2.2.12.5. Empathy	17
2.2.13. Summary of the theories.....	17
2.3. Empirical Literature	18
2.4 Conceptual Framework	24
CHAPTER THREE	26
DATA AND METHODOLOGY	26
3.1 Introduction	26
3.2 Research design	26

3.3 Study area	26
3.4 Study Population.....	27
3.5 Sampling frame /sampling design.....	27
3.6 Sampling technique and Procedure.....	27
3.7 Sample Size	27
3.8 Types and source of data.....	28
3.9 Data collection techniques.....	28
3.10 Questionnaire design.....	28
3.11 Data analysis.....	29
3.12 Validity and Reliability of Data.....	29
3.13 Variable Measurements.....	30
3.13.1 Independent variables.....	30
3.13.2 Dépendent variable.....	30
CHAPTER FOUR	31
RESEARCH FINDINGS	31
4.1 Introduction	31
4.2 Customer Length of stay with CRDB bank.....	31
4.3 Service Quality and Customer Retention from CRDB Bank	32
4.3.1 Influence of Tangibles on Customer Retention	33
\4.3. 2 Influence of Reliability of Bank Service on Customer Réention	34
4.3.3. Influence of Responsiveness of Bank Service Providers on Customer Réention	35
4.3.4 Influence of Assurance of Bank Services on Customer Réention	36
4.3.5 Influence of Empathy of Bank Service Providers on Customer Retention	38
4.4 Over all Mean Percentage of Service Quality From CRDB Bank	39

4.5 Other qualities of CRDB Bank which Impressed Customers_	41
CHAPTER FIVE	42
DISCUSSION OF THE FINDINGS	42
5.1 Introduction	42
5.2 Tangibles	42
5.3 Responsiveness	42
5.4 Empathy.....	43
5.5 Reliability	43
5.6 Assurance	44
5.7 Other qualities which impressed customers about CRDB Bank	44
5.8 Ways of improving service quality for enhancing customer retention	44
5.9 Contribution of the Study	45
CHAPTER SIX	46
SUMMARY, IMPLICATION OF THE FINDINGS AND CONCLUSION	46
6.1 Introduction	46
6.2 Summary of Key Findings	46
6.3 Implication of the Findings	48
6.3.1 Implication for Tanzania policy makers.....	48
6.3.2 Implication to CRDB bank	49
6.3.3 Implication to Individuals.....	49
6.4 Direction for the Future research	50
6.5 Recommendations.....	50
6.6 Conclusion.....	52

REFERENCES 53
APPENDICES..... 58

LIST OF TABLES

Table 3.1: Sample size	28
Table 4.1: Length of Customer stay with CRDB bank	31
Table 4.2: Perception of respondents on two categories of Tangibles	33
Table 4.3: Perception of respondents on two categories of reliability.....	34
Table 4.4: Perception of respondents on two categories of responsiveness	35
Table 4.5: Perceptions of respondents in different categories of Assurance	37
Table 4.6 Perception of respondents on the two categories of Empathy	38
Table 4.7: Shows overall mean percentages of service quality by CRDB bank	40

LIST OF FIGURES

Figure 2.1 Gronroos Service Quality Model.....	12
Figure 2.2 Model of Service Quality Gaps	15
Figure2.3: Conceptual Framework	25
Figure 4.1: Length of Customers' stay with CRDB bank.....	32
Figure 4.2: Perception of respondents on two categories of Tangibles	33
Figure 4.3 Perceptions of respondents on two categories of reliability	35
Figure4.4: Perception of respondents on two categories of responsiveness	36
Figure 4.5: Perceptions of respondents on three categories of Assurance	37
Figure: 4.6 Perception of respondents on two categories of Empathy	39
Figure 4.7: Other qualities of CRDB bank customers like and things to beImproved....	41

CHAPTER ONE

BACKGROUND OF THE STUDY

1.1 Introduction

Globally, the banking industry is very important for both developing and developed economies. The industry is operating in a very competitive environment. Kaynak and Kucukemiroglu (1992) and Hull (2002) argue that, banking industry is highly competitive with banks, not only competing among each other, but also with non-bank and other financial institutions. Therefore, customer retention must be valued as an effective tool that banks can use to gain a strategic advantage and survive in today's ever increasing banking competitive environment. It is more economical to keep customers than to acquire new ones. The costs of acquiring customers to "replace" those who have been lost are high. This is because the expense of acquiring customers is incurred at the beginning stages of the commercial relationship (Reichheld and Kenny, 1990). Moreover, it is believed that reducing customer defection by as little as five percent can double profit (Healy, 1999). In the same perspective, Dawkins and Reichheld (1990), Fisher (2001), Marple and Zimmerman (1999), Pitt and Berthon (1996), Reichheld and Kenny (1990) emphasize the significance of customer retention in the banking industry. Consumers all over the world have become more quality conscious; hence there has been an increased customer demand for higher quality service. Service provisions worldwide are affected by this new wave of quality awareness and emphasis (Lee 2004). Therefore service-based companies, like banks, are compelled to provide excellent services to their customers in order to retain them. In addition, services which continuously and consistently delight customers make them happy and satisfied. In such situation, they become loyal customers and will continue demanding the service which, in turn, will result in profit and growth of the bank.

1.2 Historical Background of Commercial Banks in Tanzania

The banking industry in Tanzania was, before liberalization, a result of the Arusha Declaration of 1967. The banking industry was monopolized by the National Bank of

Commerce – NBC (with 92% of all bank deposits, and 189 branches). By that time the only other players in the banking industry were CRDB in mainland Tanzania - then known as the Cooperative and Rural Development Bank – CRDB which hosted 1.8% of deposits, and 11 branches; and the Peoples’ Bank of Zanzibar – PBZ, which hosted 2.1% of deposits and had 4 branches. Essentially the Arusha Declaration nullified the role of the market in determining the prosperity of a firm and eliminated competition. Thus, the banking industry orientation was primarily social, with a focus on the products and not customers. NBC was not prompted to think about customer retention as there were no competitors in the country. It can be equally argued that for the same reasons customer attraction was not much of a concern for the monopoly.

Due to problems facing the banking sector then, The Banking and Financial Institution Act of 1991 paved the way for liberalization of the sector in the country. In the years that followed the liberalization NBC, with 23% of total deposits and only 35 branches, lost its monopolistic hegemony and today the country has more than 30 banks (both foreign and domestic). The liberalized banking business now faces stiff competition between the financial intermediaries operating inside Tanzania. These changes have come with opportunities and threats which forcibly compel commercial banks to formulate strategies that would favorably place them in a competitive advantage and consequently achieve shareholders goal i.e. wealth maximization. The transition from a dormant monopolistic market that lacked alternatives, to a highly competitive market where the target customers are more demanding, informed and approached by competitors with equal or better offerings poses a challenge to commercial banks.

1.2.1 CRDB Bank in Tanzania

CRDB bank Limited is a private commercial bank. The bank was established on July 1st 1996 to succeed the former Cooperative and Rural Development Bank (CRDB) which was a public institution, with majority of shares held by the Government of the United Republic of Tanzania. The succession was a result of the liberalization of the banking industry in Tanzania. The liberalization which followed the enactment of the Banking

and Financial Institutions Act (BFIA) of 1991 and Government's policy to divest its interest in the sector prompted a recapitalization of the bank to levels stipulated by the BFIA (1991). CRDB has been recording progressive profits every year since it was formed and has paid dividends annually. The bank reached an important milestone by being listed on the Dares Salaam Stock Exchange on 17th June, 2009. Furthermore, the bank offers a comprehensive range of corporate, retail, business, treasury, premier, and wholesale microfinance services through a network of more than 60 branches, ATMs, mobile branches, Point of Sales (POS) terminals and scores of microfinance partner institutions. The bank also operates through internet and mobile banking services. This study intended to know whether service quality influences customer retention by CRDB bank.

1.3 Problem Statement

Formerly the banking industry orientation in Tanzania was primarily social and not economical with a focus on products and not customers since there were no competitors in the country. Reichheld and Kenny (1990) argued that, the costs of acquiring customers to "replace" those who have been lost are high. This is because the expense of acquiring customers is incurred at the beginning stages of the commercial relationship. Essentially, the main problem facing most commercial banks in Tanzania today is how to retain their customers through delivery of quality bank services. This problem of customer retention by a bank depends on how customers perceive to be the quality of bank services.

In this era of increasing competitive business environment in the banking industry, and where customers are demanding high quality services, CRDB, like other banks, focuses more on designing different innovative products so as to influence customers. Such products include internet banking, mobile banking, sim banking, M- pesa, and cardless ATMs services to mention, but a few. The bank believes that, these can help influence commercial relationship with their customers who may become loyal to the bank. Infact, customers have become more quality conscious; hence there has been an

increased customer demand for higher quality services. Hence commercial banks should constantly evaluate the quality of their services and how customers are influenced by them. This study is prompted by the fact that so far little is known about the influence of service quality provision by banks in Tanzania on customer retention. The study, therefore, intends to investigate five dimensions of service quality to know the extent to which service quality influences bank customer retention in commercial banks, taking CRDB Bank in Dar es Salaam as a case.

1.4. General Objective

The general objective of this study was to examine the influence of service quality on customer retention in commercial banks in Tanzania.

1.4.1 The Specific Objectives

The specific objectives were as followings:

- i. To examine the extent of influence of tangibles on customer retention by CRDB bank in Dar es Salaam.
- ii. To examine the extent of influence of reliability of bank services on customer retention by CRDB bank in Dar es Salaam.
- iii. To examine the extent of influence of responsiveness of bank service providers on customer retention by CRDB bank in Dar es Salaam.
- iv. To examine the extent of influence of assurance of bank services on customer retention by CRDB bank in Dar es Salaam.
- v. To examine the extent of influence of empathy of bank service providers on customer retention by CRDB bank in Dar es Salaam
- vi. To recommend ways of further improving service quality in order to increase customer retention by CRDB bank.

1.5 Research Specific Questions

- i. To what extent do tangibles influence customer retention by the CRDB bank in Dar es Salaam?
- ii. To what extent does reliability of bank services influence customer retention by CRDB bank in Dar es Salaam?
- iii. To what extent does responsiveness of bank service providers influence customer retention by CRDB bank in Dar es Salaam?
- iv. To what extent does assurance of bank services influence customer retention by CRDB bank in Dar es Salaam?
- v. To what extent does empathy of bank service providers influence customer retention by CRDB bank in Dar es Salaam?
- vi. What should be done to improve service quality provision in order to increase customer retention by CRDB bank?

1.6 Significance of the Study

This study identifies quality dimensions which are significant to CRDB Bank to enable the bank develop strategies to improve the quality of service delivery hence customer retention. Identifying and evaluating service quality dimensions will help CRDB bank develop customer-centric service approach in order to reduce the tendency of existing customers switching to a competing bank. By identifying what customers perceive to be quality, CRDB bank can revise, redesign or repackage its service operations and tailor them to match up with customers' needs and preferences. This will bring satisfaction to the customers and make them stay long while still attracting new ones. The study will also serve as a guide for CRDB Bank to develop policies which will improve its overall service delivery, especially in areas where the degree of influence of service quality appears to be low in enhancing customer retention. This is expected to give CRDB Bank a comparative advantage and the most preferred bank in the commercial banks subsector. By virtue of improved services, CRDB bank can benchmark its policies and strategies for quality improvement programmes leading to overall improvement in

performance of the bank. Lastly, this study will stimulate similar studies .in the banking industry or related fields in Tanzania.

1.7 Scope of the Study

The study is limited to CRDB bank in Dar es Salaam. This was because of time and financial constraints. The area of study was selected because it is a centre of business activities, and it houses the largest number of banks, and hence there is stiff competition in the industry. Moreover data were expected to be readily available.

1.8 Limitation of the Study

The study faced a number of limitations. The major limitations included time and financial constraints, unwillingness of bank officials to be interviewed and confidentiality syndrome. This necessitated the researcher to concentrate on customers as respondents. Moreover time and financial constraints forced the researcher to study only eight (8) branches of CRDB bank in Dar es Salaam

1.9 Organization of the Dissertation

The dissertation is divided into six chapters. Chapter one provides a brief over view of customer retention worldwide and of commercial banks in Tanzania, and then it specifies the reasons that led the researcher to pursue the study. Chapter two presents the views of different stakeholders (ie it reviews theoretical and empirical literature) in the context of retention of customers in commercial banks through provision of quality services. The chapter also presents a conceptual framework and a research model. Chapter three highlights data and methodology needed for the study. Chapter four presents the research findings after analyzing data from questionnaires. Chapter five discusses the findings on the influence of service quality on customer retention by CRDB bank. The last chapter, chapter six, summarizes the research findings, provides recommendations, and gives a conclusion on customer retention through service quality provision.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter presents the theoretical literature on service quality and customer retention. It then reviews previous empirical studies related to customer retention and finally it presents a conceptual framework and a research model to guide the study.

2.2 Theoretical Literature

The study reviewed various concepts which include: concept of quality, concept of service, bank services, service performance, bank service, service quality, perceived service quality, customer satisfaction, Customer retention, complaint handling, service quality measurement .Then various theories were reviewed namely, Parasuraman – Zeithaml – Berry service quality gap model (1985), Gronroos service quality model (2000), and Performance only approach.

2.2.1. Concept of Quality

The word quality is frequently used to describe products or services. It connotes different meaning to different people and organizations, and therefore lacks universal definition. As a result, there have been numerous definitions of quality from literature in an attempt to establish a common understanding. Until recently, the concept of quality was heavily associated with product. Thus, quality issues became prominent in the manufacturing era and that a majority of the quality definitions possess product characteristics. Quality was initially seen as a defensive mechanism but at the moment it is seen as a competitive weapon for developing new markets as well as increasing market share Davis et al, (2003). Furthermore, Quality is regarded as the totality of features and characteristics of a product or service that bear on its ability to satisfy a given need (Wille, 1992). An organization identifies a need in the market and produces with the mind to fulfill that need. When the need is satisfied, such organization is deemed a quality organization. Harrington (1987) argues that excellence is a never ending qualification, so “*good is not good enough until good is better and better is best*”.

Firms should always improve the quality of their services in order to retain their customers. When customers are satisfied, it is difficult for them to be swayed. This is one of the definitions which have received credence since it considers customers requirement and, at the same time, requires the provider to look beyond the requirement to the areas which will bring the optimum. In the context of this study quality is taken to mean “*totality of features and characteristics of a product or service that bear on its ability to satisfy a given need*” as given by Wille (1992).

2.2.2. Concept of Service

Bateson and Hoffman (1999) define services as deeds, efforts or performance. Regan (1963), on the other hand, sees services as activities, benefits or satisfactions offered for sale or provided in connection with the sale of goods. Johns (1999) adds that, service could mean an industry, a performance, an output or offering or a process. Service providers perceive service as a process which contains elements of core delivery, service operation, personal attentiveness and interpersonal performance which are managed differently in various industries. Customers, on the other hand, view service as an experience of life which consists of elements of core need, choice, and emotional content (Johns, 1999). These service elements are present in different service outputs and encounters and affect each individual’s experience differently. In addition, Gummesson (1994) posits that, a service design which consists of a service, service system and the service delivery process considers customers, staff, technology, the physical environment, and the consumption goods. The physical aspects are found to be important for high quality service delivery. Bateson (1985) outlines four unique characteristics of a service to be intangibility, heterogeneity, inseparability and perish - ability. Furthermore, the quality of the service is ascertained by parameters that largely come under the domain of ‘experience’ and ‘credence’ properties and are, as such, difficult to measure and evaluate (Parasuraman et al 1985; Zeithaml and Bitner, 2003). In the context of this study, service is taken to mean “*activities, benefits or satisfactions*

offered for sale or provided in connection with the sale of goods” as defined by Regan (op.cit).

2.2.3 Service Performance

Service performance is defined by the tangible aspects of a product, that is, features and quality (Ross 1995), which are in the case of services, intangible. In general, services are activities, benefits, or satisfactions that are offered for sale, they are intangible, variable, and perishable. As a result they normally require more quality control, supplier credibility and adaptability.

2.2.4 Bank Services

Basically, banking is a business that is registered to accept deposits from the public and make out loans. Technically, banks mobilize funds from the surplus units and channel them to deficit units of the economy (Lockett, 1994). The objective of this fund channeling is to earn profit. This function makes banks one of the most important financial intermediaries in every economy and also assists Central Banks in achieving their monetary policies. Banks earn money in servicing beyond selling money. Banking services are about the money in different types and attributes like lending, depositing and transferring procedures. These intangible services are shaped in contracts. The structure of banking services affects the success of institution in the long term. Besides the basic attributes like speed, security and ease in banking services, the rights like consultancy for services to be compounded are also preferred. If perceived service falls below the expected service, the customers may lose interest with the service provider (Kottler, 1989). On the other hand, if the perceived service meets or exceeds the customer's expectations, customers opt to use the provider again.

2.2.5. Service Quality

Service quality has become a major area of attention during the past few decades for managers, researchers, and practitioners because of its huge impact on business performance by firms. Lewis and Booms (1983) describe service quality “as a measure

of how well the service level delivered matches customer expectations.” According to Brown and Swartz (1989), customers prefer and value companies that provide high service quality. Customers judge service quality relative to what they want by comparing their perceptions of service experiences with their expectations of what the service performance should be. Literature maintains that customers evaluate service quality by comparing the service providers’ actual performance (perception) with what they think service performance would be (expectations) in their service experience (Gronroos, 1982; Lehtinen and Lehtinen, 1982). Hence service quality is defined as customer perception of how well a service meets or exceeds their expectations (Czepiel, 1990) or the degree of discrepancy between customers’ normative expectation for service and their perceptions of service performance (Parasuraman et al., 1985). Many practitioners define service quality as the difference between customers’ expectations for the service encounter and the perceptions of the service received (Munusamy et al., 2010). Customer expectation and perception are the two key ingredients in service quality. Oliver (1980) posits that customers judge quality as low if performance (perception) does not meet their expectation and quality as high when performance exceeds expectations. Service is said to be of good quality when it consistently conforms to customer expectations. Parasuraman et al. (1985) argues that service quality is the measure of service delivered as against expected service performance.

2.2.6 Perceived Service Quality

Parasuraman et al, (1988) define perceived service quality as a form of attitude, related but not equal to satisfaction. Therefore, having a better understanding of customer attitudes helps to know how they perceive service quality in banking operations

2.2.7 Customer Satisfaction

Customer satisfaction is a highly personal assessment that is greatly influenced by Individual expectations. Customer satisfaction can be experienced in a variety of situations and connected to both goods and services and is also based on the customer’s experience of both contact with the organization (the “moment of truth” as it is called in

business literature) and personal outcome. In determining satisfaction, firms should ask customers whether their product or service has met or exceeded expectations.

2.2.8 Customer Retention

Customer Retention is our dependent variable measured against the independent variables. Customer retention is an indicator of customers being satisfied with the services rendered by the bank. The customer retention indicators include repeat business of the customers, referrals by the customers as well as the customers' preference of the Bank to others.

Customer Retention has been defined by different studies in different ways. Gerpott, Rams and Schindler (2001) state customer retention as a continuity of the business relations between the customer and company. Customer Retention is “the practice of working to satisfy customers with the intention of developing long-term relationships with them”. Zineldin (2000) defines retention as a commitment to continue to do business or exchange with a particular company on an ongoing basis. According to Clark (2001) long-term customer retention in competitive markets requires the provider going beyond basic satisfaction to creating loyalty in order to guard against competitor attack”. Day (1994) contends that the identification and satisfaction of customer needs leads to improved customer retention. This will help the provider to formulate strategies and plans. In this study customer retention is taken to mean the length of customer stay with a bank demanding products and services as defined by Gerpott, Rams and Schindler (2001). However the other definitions are almost the same as the one above.

2.2.9 Complaint Handling

Handling Complaint refers to the strategies firms use to resolve and learn from service failures in order to (re) establish the organizations reliability in the eyes of the customer (Hart, Heskett and Sasser 1990). In this perspective complaint handling can be viewed as a sequence of events in which a procedure, beginning with communicating the complaint, generates a process of interaction through which a decision and outcomes

occur. Effective complaint handling can have a dramatic impact on the customer retention rate, deflect the spread of damaging word of mouth, and improve the bottom line performance (Fornell & Wenerfelt 1987; Kelley, Hoffman & Davis 1993).

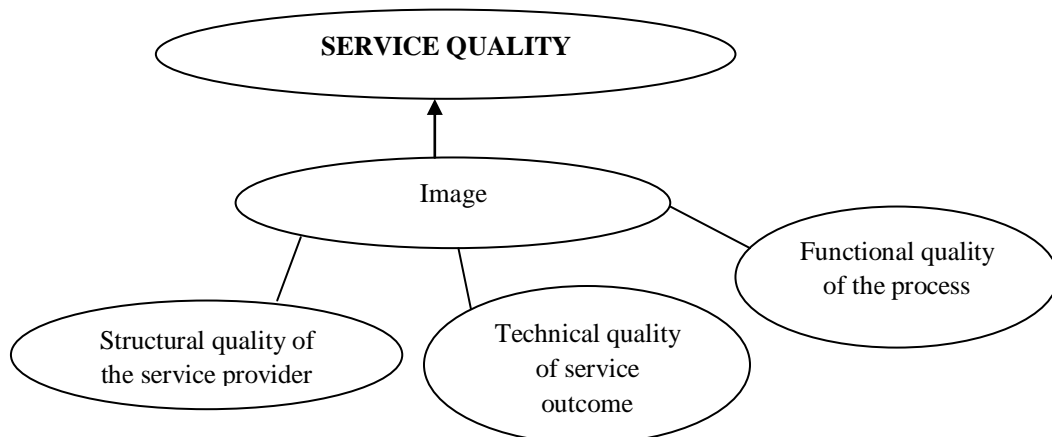
2.2.10 Service Quality Model

Several models have been identified in the literature for measuring service quality including Parasuruman-Zeithaml-Berry service quality gap model (1988) Grönroos models (1984; 1990; 2000) and performance-only.

2.2.10.1. Gronroos Service Quality Model

Grönroos (2000) contends that conceptualization of the term service quality should be client-orientated. An important element of service quality model is client orientation. In terms of this model, service quality depends on equation of two variables, namely, the service that customer expects and perception of service actually delivered. The result of this equation shows the perception of quality of service delivered. Figure 2.1 below shows the model.

Figure 2.1 Gronroos Service Quality Model



Source: Grönroos, (2000)

The Grönroos model, as depicted in figure 2.1 above, indicates that a positive perception of quality can be the result of ensuring customers positive experience on structural quality, technical quality and functional quality of services. Structural quality relates to the providers of services as well as the setting of that organization. Technical quality refers to what customer receives; and lastly, functional quality focuses on how customers receive the service. Functional quality is an important aspect for business institutions, like banks, and relates to technology. Therefore, a good functional quality depends on the following drivers: Attitudes and Behavior of the staff of the service providing company, Accessibility and flexibility, reliability and trustworthiness, readiness to recovery, and lastly, reputation and credibility.

2.2.10.2. Performance-only approach

Performance-only approach measures service quality by enquiring from the customers about their level of satisfaction with the various features following a service encounter (Babakus and Boller, 1992; Cronin & Taylor, 1994).

2.2.10.3. Parasuraman-Zeithaml-Berry Service Quality gap model

The gap model on service quality, developed by Parasuraman et al., (1985; Curry, 1999; Luk and Layton, 2002) serves as a conceptual framework for understanding service quality delivery. Parasuraman, Zeithaml, Berry point out that, the model views service quality as consisting of seven gaps in which areas of service quality shortcomings could occur.

Gap1: This refers to the gap between the customers' expectations versus management perceptions: Managers and employees of service firms do not always have an accurate understanding of what clients want, and how they evaluate a firm's service delivery. This is a result of lack of market research orientation, upward communication, and many layers of management.

Gap 2: This refers to the gap that occurs between management perception and service specification. This is a result of management of a service firm failing to design service standards that meet client expectations.

Gap 3: This refers to the gap between service specifications versus service delivery system (that includes people, technology, processes of a service firm, and the specified service standards). In other words, the service firm fails to deliver according to the agreed service standards.

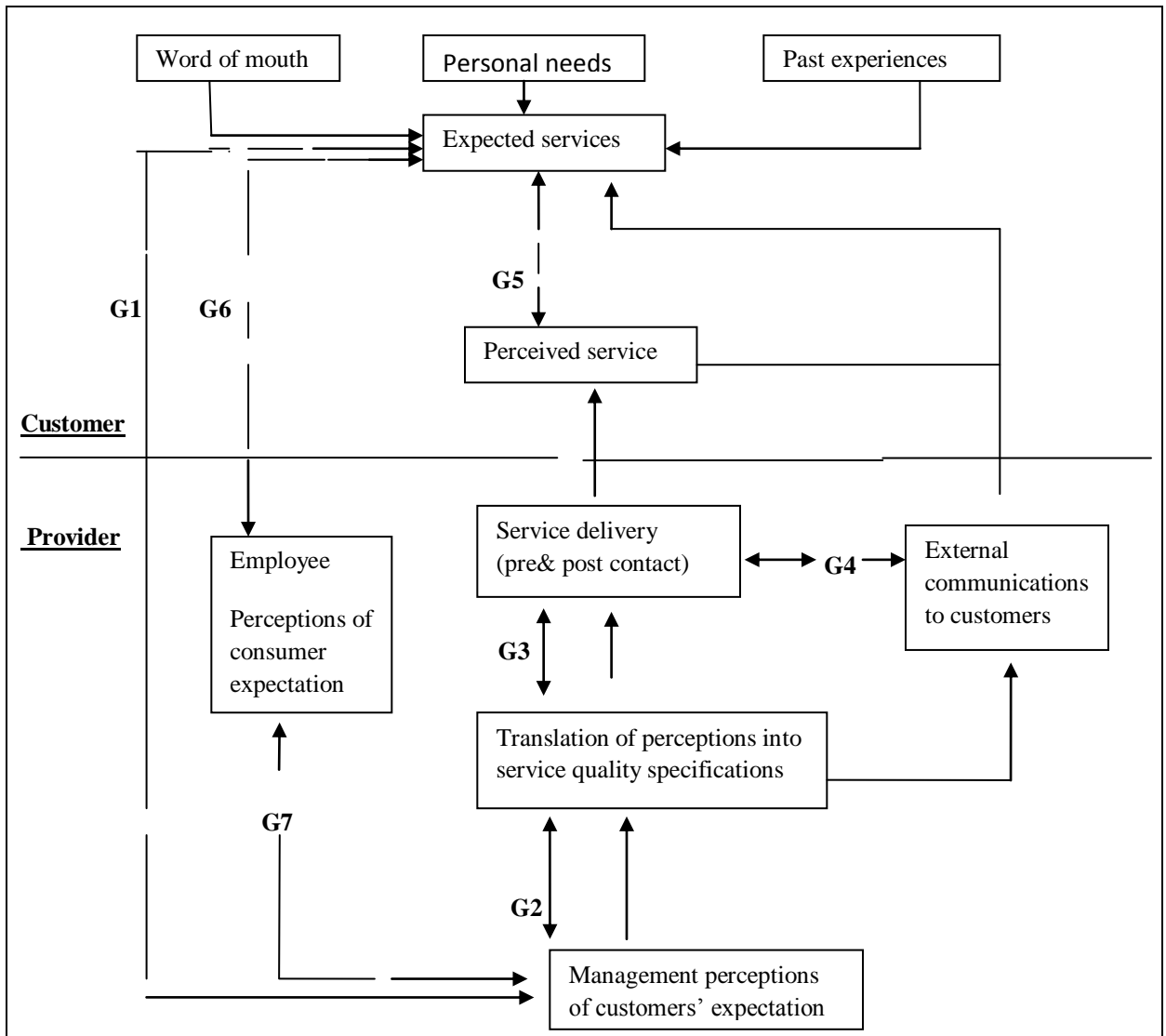
Gap 4: It refers to the difference between actual services delivered versus external communication: a result of inadequate horizontal communication.

Gap 5: It refers to the discrepancy between customer expectations and their perceptions of the service delivered: In this case customers are influenced by the extent of personal needs, word of mouth recommendation and past service experiences.

Gap 6: This is the discrepancy between customer expectations and employees' perceptions: a result of the differences in the understanding of customer expectations by front line service provider.

Gap 7: It is the Discrepancy between employee's perceptions and management perceptions: a result of the differences in the understanding of customer expectations between managers and service providers. Hence, service quality gaps = f (Gap 1, Gap 2, Gap 3, Gap 4, Gap5, Gap6, and Gap 7). Figure 2:1 below presents the service quality gap model outlined above.

Figure 2.2 Model of Service Quality Gaps



Source: (Parasuraman et al., 1985; Curry, 1999; Luk and Layton, 2002)

2.2.11. SERVQUAL Model

Despite several models being identified in the literature for measuring service quality, *SERVQUAL model* – developed by Parasuraman et al. (1985), remains the most often used approach for measuring service quality. It is the instrument which is predominantly used to measure customers’ perception of service quality. The model is most acknowledged and applied in a variety of industries.

Originally, the model provided a list of ten determinants of service quality: access, communication, competence, courtesy, credibility, reliability, responsiveness, security, understanding and tangibles. Later reviews merged correlated variables and reduced the determinants to five consolidated dimensions, namely tangibles, reliability, responsiveness, assurance and empathy as the instruments for measuring service quality (Parasuraman al.1988; Zeithamlet et al. 1990).

2.2.12. Measuring Service Quality using SERVQUAL Model

Different determinants have been identified in the literature for measuring service quality. Despite the numerous models used to measure service quality, Nyeck et al (2002), admit that the SERVQUAL model remains the most complete attempt to conceptualize and measure service quality. The model is extensively used to measure service quality in the literature. Therefore this study adopts the SERVQUAL model to measure service quality in Banks. The SERVQUAL model includes dimensions such as tangibles, reliability, responsiveness, assurance and empathy which are the basis for service quality measurement (Parasuraman et al., 1988; Zeithaml et al., 1990).

2.2.12.1. Tangibles

Tangibles encompass the appearance of the company representatives, facilities, materials, and equipment as well as communication materials. The condition of the physical surroundings is seen as a tangible evidence of care and attention to details exhibited by the service provider (Fitzsimmons & Fitzsimmons, 2001). Davis et al (2003) summarize tangibles as the physical evidence of the service.

2.2.12.2. Reliability

Reliability and consistency of performance of service facilities, goods and staff is seen as important (Johnston, 1997). This includes punctual service delivery and ability to keep to agreements made with the customer. According to Fitzsimmons and Fitzsimmons (2001) reliability is the ability to perform the promised service both dependably and accurately with error free.

2.2.12.3. Responsiveness

Johnston (1997) describes responsiveness as the speed and timeliness of service delivery. This includes the speed of throughput and the ability of the service provider to respond promptly to customer service requests, with minimal waiting and queuing time. Fitzsimmons and Fitzsimmons (2001) argue that when the customer is kept waiting for no apparent reason, it creates unnecessary negative perceptions of quality. Conversely, the ability for the bank to recover quickly when service fails and exhibit professionalism will also create very positive perceptions of quality.

2.2.12.4. Assurance

This considers the knowledge and courtesy of employees as well as their ability to convey trust and confidence. The assurance dimension includes the following features: competence to perform the service, politeness and respect for the customer, effective communication with the customer and the general attitude that the server has the customer's best interest at heart (Fitzsimmons & Fitzsimmons, 2001).

2.2.12.5. Empathy

According to Chase et al. (2001), empathy is the provision of caring, individualized attention to customers. In the same perspective, Johnston (1997) describes empathy as the ability to make the customer feel welcome, particularly by the contact staff. Therefore, the SERVQUAL model identifies a gap which maintains that satisfaction is related to the size and direction of disconfirmation of a persons' experience (Parasuraman, Zeithaml & Berry, 1985).

2.2.13. Summary of the Theories

Theoretical literature shows that the quality of bank services is perceived by customers themselves. This is because customers are the ones who experience those services and they can rank them. Theory insists that quality is subjective when perceived by customers. The literature has proven that, providing quality service delivery to

customers retains them, attracts new ones, enhances corporate image, lead to positive referral by word of mouth, and above all, guarantees survival and profitability. The rate of customer retention increases with the improvement of quality of service.

2.3. Empirical Literature

This section summarizes the empirical body of knowledge on service quality, and customer retention as contributed by market scholars, especially on tangibility, reliability, responsiveness, assurance, and empathy dimensions of service quality on customer retention.

Many authors (Reichheld and Kenny, 1990; Zeithaml, et al., 1990; Bowen and Lawler, 1990; Schlesinger and Heskelt, 1991) have written about the relationship between customer retention and the quality of service experienced by customers. Schlesinger and Heskett (1991) pointed out that actively managing the relationship between server and customer can yield higher service revenues through increased repurchase rates.”

This finding supports the observation by Parasuraman et al (1985) who documented that, the customers’ judgments of high or low service quality depends on how customers perceive the actual service performance in the context of what they expected.” Zeithaml et al. (1990), Heskett et al. (1990) found that good service delivery elicits the best outcome in terms of customer satisfaction. They revealed that, empowering employees to provide a quick response to customer frustrations can turn potentially frustrated or angry customer into a satisfied one, hence, ensure customer retention. This supports the observation by Ioanna (2002) on “The Role of Employee Development in Customer Relations, in UK Retail Banks.” The study revealed that the quality of staff has an impact on the quality of customer services which are vital in gaining a competitive advantage in the banking industry. Ioanna further proposed that product differentiation is impossible in a competitive environment like the banking industry. Banks everywhere are delivering the same products. Thus, bank management tends to differentiate their firm from competitors through service quality. Service quality is an imperative factor impacting customers’ satisfaction level in the banking industry. This observation is

relevant to one of this study's hypothesis because, implicitly, one of the objectives is, partly, to know the extent to which competence of bank employees influences bank customer retention.

Leeds (1992) in his study on "Mystery Shopping' Offers Clues to Quality Service" acknowledged that, in businesses, where the underlying products have become commodity-like, "quality of service depends heavily on the quality of its personnel". The study revealed that approximately 40% of customers switched banks because of what they considered to be poor service. He further points out that, nearly three-quarters of the banking customers mentioned teller courtesy as a prime consideration in choosing a bank. Indeed, customer satisfaction has, for many years, been perceived as a key in determining why customers leave or stay with a bank.

Wang and Wang (2006) conducted their study to gain a better understanding of how internet affects service quality in the banking sector. The study was descriptive and used qualitative data on multiple case studies. The authors concluded that internet leads banking services to be more convenient, time saving and easier to reach. In addition, they identified that the performance of employees in traditional banks still plays an important role in the dimension of reliability from online perspective. This observation is relevant to this study because, one of our specific objectives is to know the extent to which bank service influences bank customer retention. Specifically this study intends to examine service quality to see, interalia, if accessibility of bank service, such as ATM services, is more convenience, time saving and easier to reach and if it enhances customer retention.

Chatura and Andy (2003) on "Some Moderating Effects on the Service Quality – Customer retention Link" presented a holistic model of customer retention incorporating service quality perceptions, price perceptions, customer indifference and inertia. Data from large scale postal survey of telephone users in England showed that, all five independent variables had significant and positive relationship with customer retention.

They revealed that price was a main reason for switching. However, more than a third of those who cited price as the main reason for leaving had a recent problem relating to service quality. They argue that it is possible that an incident of poor service quality acts as a trigger in making customers who perceive high prices to decide to leave. Furthermore, they revealed that, an increase in service quality by 10 per cent could increase the rate of retention by 8.8 per cent. Therefore, it is clear that increasing service quality can significantly increase the level of customer retention.

The above study conform to my study hypothesis that, even if there is reasonable price, without quality service, customers may still leave the bank because consumers all over the world have become more quality conscious; hence there has been an increased customer demand for higher quality service. Therefore service-based companies, like banks, are compelled to provide excellent services to their customers in order to ensure customer retention.

Gabriel (2005), studied on “Application of Porter’s Five Forces Framework in the Banking Industry in Tanzania.” The study was mapping the banking industry of Tanzania using PFFF, to see the attractiveness of the industry within ten years (1995 – 2005). The study revealed that, there is need for quality service to make sure customer is retained because of increased of competition between the existing rivals, prospective new entrants, and bargaining power of customers in the banking industry. The study also revealed that rivalry among existing banks is very high following the increased number of banks in the industry (There were 22 banks at the time of study which were recognized and licensed to operate in Tanzania (Bank of Tanzania report, 2005). Looking on the trend of dates of commencement of business of these 22 banks, 19 of them commenced just within ten years (1995 – 2005). This is 86% of the registered banks. This gives a clear signal that the increase of the number of banks within the industry is fast and in any case there is now a great struggle for banks to create and maintain a good market share.

Hassan (1998) in his study on “Service Quality Determinants in the Financial Institutions: The case of Banking Sector in Tanzania” revealed that, 62% of the respondents agreed that bank branches had modern looking equipments and physical facilities, 29% were uncertain and only 9% disagreed that bank branches had modern physical facilities. Banks’ provision of promised services dependably and accurately was another factor investigated. The study revealed also that 70% of customers agreed that bank branches performed promised services dependably and accurately, 12% did not believe bank branches perform promised services dependably, and 18% were uncertain. The study further revealed that, 62% of the respondents believed that in their bank branches employees could tell the customers exactly when they will provide services to them, 9% disagreed and 29% were uncertain. Another factor investigated was Employees Courtesy. The study revealed that, 70% agreed that bank branch employees were able to convey trust and confidence to customers, 12% disagree and 18% were uncertain. Lastly, 53% agreed that bank branches were giving customers individual attention and bank branches operated in convenient hours to the customers; moreover employees of bank branches were willing to be flexible to accommodate customer’s schedules. While findings by Hassan indicates that there is good quality of services in Tanzania banking sector, yet the findings do not tell if the qualities observed by customers influence their retention.

Maingu (2000) studied on “The Impact of Service Quality in Acquisition and Retention of Customers by Commercial Banks in Tanzania: A Case study of Commercial Banks in Dar es salaam for a period of six years (1990 - 1996).” The study investigated whether commercial banks used service quality to acquire, attract, and retain customers, and if there were other factors apart from service quality which influenced the acquisition, attraction and retention of customers in commercial banks. Using a sample of 182, customers obtained randomly, the study revealed that, reliability of bank services had significant impact on customer retention, followed by responsiveness of contact personnel in terms of attributes such as competence, friendliness and credibility. The

findings revealed further that tangibility came third as determinant of customer retention. However the influence of other factors was unclear.

Magavilla (2002) studied on “A Micro Economic Analysis of Customer Retention Indicators: A Case Study of Standard Chartered Bank in Dar es Salaam – Tanzania” The study was based on a random sample of 120 customers of Standard Chartered Bank and data were collected by questionnaires and interviews. Qualitative and quantitative data were then analyzed statistically. The study revealed that, improvement in different perspectives of customer retention is necessary. Three cases, namely, interpersonal communication, service performance and complaint handling were investigated. Statistical inference showed that customers were less than highly satisfied with these aspects. Findings revealed further that ‘improvements in the level of satisfaction with interpersonal communication are likely to increase customer retention since 29% of the customers were highly satisfied, 62% were just satisfied and 9% were lowly satisfied, and no customers were ‘not satisfied.’ However the study indicated that ‘improvements in the level of satisfaction with service performance is likely to increase customer retention’ as 32% of the customers were highly satisfied, 62% just satisfied, 5% lowly satisfied, while only 1% were ‘not satisfied’ with service performance. The study moreover, revealed that, the level of satisfaction with complaint handling was encouraging, because 16% of the customers were highly satisfied, 63% just satisfied, 17% lowly satisfied and only 5% were ‘not satisfied’ with complaint handling. Overall, however the results indicate that, the level of satisfaction is less than ‘high for interpersonal communication, service performance and complaint handling. Thus customers were less likely to be retained. Improvements in these areas were likely to have a great impact on Standard Chartered Bank’s ability to retain customers and increase profits.

Fasha (2007) studied on “The Impact of Service Quality on Customers Satisfaction and Retention,: A Case Study of Tanzania Commercial Banks in Dar es salaam region for

the period of ten years (1997 – 2007)”. Three main elements were formulated as specific objectives to see their influence on customers’ satisfaction and hence their retention. These elements were provision of information to the customers, handling complaints, and service quality. The study was based on a sample of 142 customers obtained randomly. Data collected by means of questionnaires and interviews were analyzed statistically. The findings revealed that information provision, handling complaints and service quality had significant impact on customer satisfaction and hence their retention. The overall findings indicated that there were great possibilities for improving service quality in the commercial banks if the identified factors are taken into account during the whole process of service delivery. This study did not show the percentage of respondents who influenced by service quality. So do not conform to my study.

Kalonga (2008) conducted a study on “The role of specific Services and Sales Skills on Customer Retention: A Case of Corporate Banking Industry in Tanzania.”The study was to gain a better understanding on the role of specific services and sales skills on customer retention in Corporate banking industry in Tanzania. The study was based on descriptive (cross sectional study) and it used both quantitative and qualitative data. The study revealed that, quality service factors and behavioral skills were linked to service quality and customer retention. The study specifically revealed that, service reliability, service security, service availability, service accessibility, service simplicity and time spent in queuing had significant impact on customer retention.

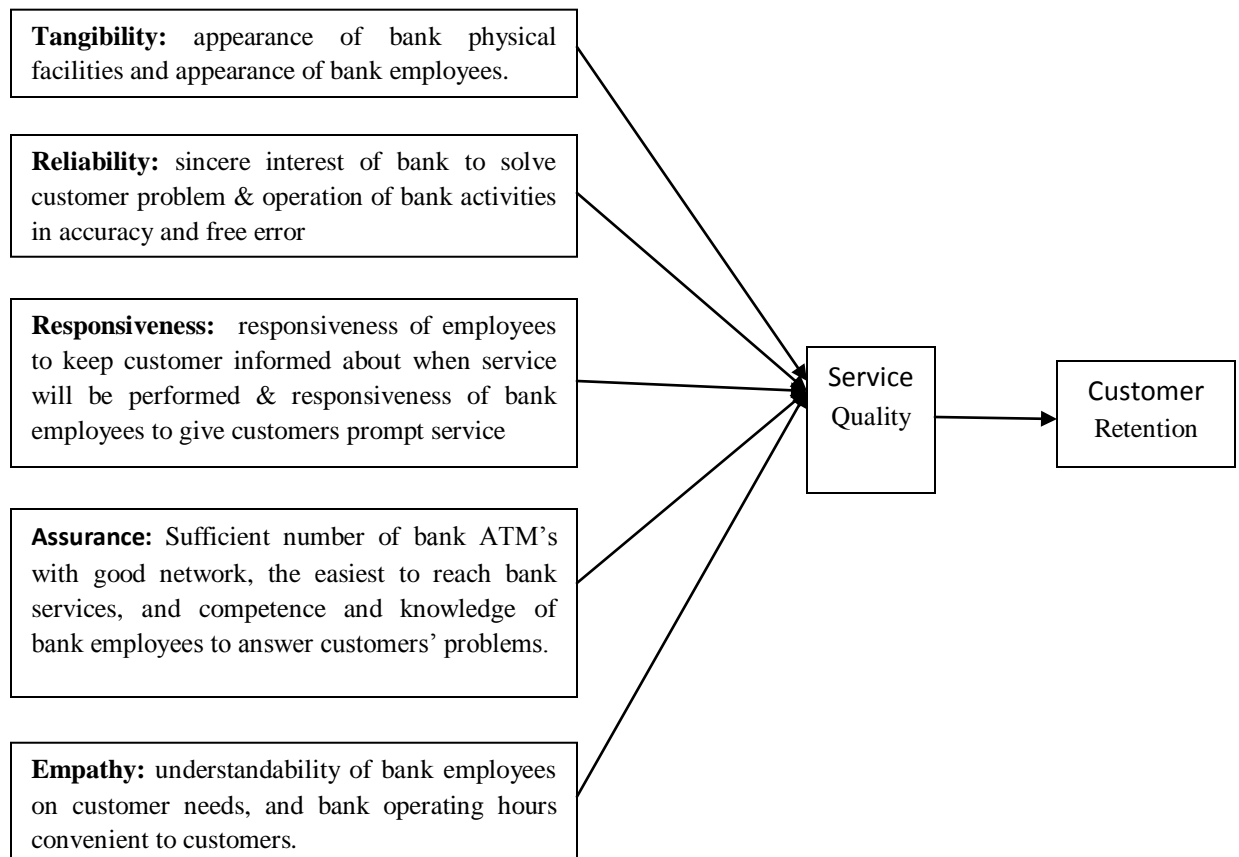
Mbinile (2010) Studied on studied Service Quality and Customer Retention in Tanzania Commercial banks: A Case of Commercial Banks in Dar es Salaam Region” The purpose of the study was investigating service quality and customer retention in Tanzania commercial banks. Specifically, the researcher intended to know more about the relationship between service quality and customer loyalty, customer level of satisfaction, the customers’ length of stay with their banks, strategies used by

commercial banks to retain their customers, and problems encountered in implementation of customer retention strategies. The study employed a sample of 164 customers and data were collected through questionnaires to bank customers and by personal interviews with bank managers from seven commercial banks namely: CRDB, NBC, KCB, NMB, TPB, ACB, CBA, BOA, and Access Bank. Findings revealed that the overall service quality provided by the commercial banks had direct relationship with customer loyalty. They also revealed that the level of customer loyalty in banks differs according to service quality provided. However, findings revealed that, the level of customer satisfaction in these seven commercial banks was average; neither so low nor so high. The researcher then concluded that customer retention in commercial banks was influenced by service quality dimensions along with a supplement of augmented services such as handling complaints and price.

2.4 Conceptual Framework

Based on the literature reviewed, the conceptual framework guiding the study is depicted in Figure 2.3. The framework shows the relationship between customer retention and service quality dimensions, namely tangibility, reliability, responsiveness, assurance, and empathy. Customer retention is the dependent variable which is influenced by service quality dimensions, as independent variables. To measure the service qualities of CRDB bank which influence customers to remain loyal, the SERVQUAL model was used. The SERVQUAL model consists of five variables: tangibility, responsiveness, reliability, assurance and empathy. For CRDB bank to ensure customer retention the degree of service quality must be higher than customers' expectations. This will make customers to be willing to continue doing business with the bank and to recommend the bank to friends and associates.

Figure 2.3: Conceptual Framework



Source: Modified from Parasuraman et al (1988)

Figure 2.3 above shows that the quality of the five variables on the left - hand side, together, give rise to the quality of services provided by the bank. The service quality, in turn, influences customer retention by the bank. Ultimately, therefore, customer retention can be said to depend on the five – left hand side variables. This leads to a conceptual model of the form:

Customer Retention = f (Tangibles, Reliability, Responsiveness, Assurance, Empathy).

Our study, therefore, will implicitly be based on the above conceptual model.

CHAPTER THREE

DATA AND METHODOLOGY

3.1 Introduction

This chapter presents the methodological processes as well as procedures used in data collection and analysis. More specifically, it describes research design, study population, sampling techniques/ frame, sampling procedure, sample size, types and sources of data, data collection instruments, data analysis, and operationalization of the concepts.

3.2 Research design

A research design is a framework or plan for a study used as a guide in collecting and analyzing data (Churchill, 1988). The design is a case study because only one institution (CRDB bank) is being analyzed to get detailed information concerning the influence of service quality on customer retention. The main objective is to acquire knowledge on how improvement of service quality enhances customer retention. In this study both quantitative and qualitative approaches were used. According to Crewel and Clark (2011, p.120), one method alone is not enough to obtain accurate data. They state that the concurrent use of quantitative and qualitative approaches provides a better understanding of the research problem than using one method alone. Our study adopts a mixed approach; the quantitative approach allows presentation of information in terms of descriptive statistics such as frequency distribution tables, histograms and pie charts while the qualitative approach allows the explanation of information obtained from data analysis. Cross – sectional survey was used to get information of customers' perception of service quality delivery and its influence on customer retention in which SERVQUAL Model was used to analyze the data.

3.3 Study area

This study was conducted in Dar es Salaam. The study area was selected because it houses the largest number of banks, and there is stiff competition in the industry. Moreover data were expected to be readily available.

3.4 Study Population

In marketing studies population refers to all elements such as customers, stores and production units that are of interest to the marketer in relation to the marketing problem (Mwaipopo, 2009). Furthermore, According to Donald and Delino (2006) a study population is a group of individuals, objects or items from which samples are taken for measurement. The population for this case study was customers of CRDB bank in Dar es Salaam region.

3.5 Sampling frame /sampling design

The sampling design is a definite plan for obtaining a sample from a given population (Kothari, 2004). It refers to the technique or procedure the researcher would adopt in selecting items for the sample. In this study, simple random sampling technique was proper since it provides equal chance in the selection of respondents. Thus, simple random sampling was adequate, representative and appropriate for this study. The sampling frame included all customers from eight branches of CRDB bank in Dares salaam namely, Kariakoo, Mbagala, UDSM, Mbezi, Tandika, Mlimani city, Azikiwe, and Kijitonyama.

3.6 Sampling technique and Procedure

Customers were obtained by random picking. After getting bank services, any CRDB bank customer who was coming out at the time of study was picked. From each of the eight branches, 20 customers were earmarked to be picked, giving a total of one hundred sixty (160) customers. The researcher also used simple random sampling to select branches from CRDB bank network in Dar es Salaam.

3.7 Sample Size

The sample should neither be excessively large, nor too small. It should be optimum. An optimum sample is one which fulfills requirements of efficiency, respective, reliability

and flexibility (Kothari, 2006). Therefore the total number of respondents earmarked for this study was one hundred sixty (160) customers of CRDB bank.

However the actual number of respondents obtained during data collection was one hundred fifty four (154). The actual composition of respondents is shown on Table 3.1 below.

Table3.1: Sample size

BRANCHES OF CRDB	PROPOSED SAMPLE SIZE		ACTUAL SAMPLE SIZE	
	SIZE	PERCENTAGE	ACTUAL	PERCENTAGE
Azikiwe	20	12.5%	16	10%
Kariakoo	20	12.5%	20	12.5%
Mlimani city	20	12.5%	20	12.5%
Tandika	20	12.5%	20	12.5%
Mbagala	20	12.5%	18	11.25%
Kijitonyama	20	12.5%	20	12.5%
Mbezi	20	12.5%	20	12.5%
UDSM	20	12.5%	20	12.5%
Total	160	12.5%	154	100%
Grand total	160	100%	154	100%

3.8 Types and source of data

Primary data were used in this study. The data were collected from eight branches of CRDB bank in Dar es Salaam.

3.9 Data collection techniques

Data were collected using questionnaires where each respondent was provided with a questionnaire immediately after getting service from the bank. This was based on the idea of exit method.

3.10 Questionnaire design

Questions modified from the SERVQUAL model as formulated by Parasuraman et al, (1988) were used. For easy understanding and reading the questionnaires were translated from English language to Kiswahili language. Black (1999, p. 227) notes that in order to achieve maximum reliability and validity, a total score of each variable should be a

quantified indicator of attitudes, perception and traits. The author further asserts that, it is not irrational for the respondents to have neutral views on some of the variables. In line with this, SERVQUAL model for the study used a four – point likert scale, ranging from “1 = strongly disagree” to “4 = strongly agree” where determinants of service quality like responsiveness, reliability, assurance and empathy were taken. On the other hand tangibles of the bank were measured by using pre-defined four-point scale, ranging from “1= very bad”, “2= bad,” “3= good,” and “4 = very good.” For this study therefore, the range from 3 – 4 indicates positive influence of service quality dimensions on customer retention, while the range from 1– 2 shows that, service quality dimensions is not a factor which may influence customer retention. On the same questionnaire respondents were required to indicate the length of stay with the bank (in years). Furthermore respondents were required to mention other qualities which impressed them. Lastly they were requested to mention ways of further improving service quality in order to increase customer retention by the bank. All the questions used were modified in line with the standard questions developed by Parasuraman et al. (1988).

3.11 Data analysis

The study employed descriptive statistical analysis. Using SPSS version 16.0 descriptive statistics computed included frequency distribution tables, histogram, pie charts, as well as statistical indices such as mean. Thus the combination of both qualitative and quantitative data analysis helped in achieving the research objectives and answering the research questions of this study.

3.12 Validity and Reliability of Data

Validity is the ability of the measuring instrument or research study to measure what it claims to measure. According to Borg and Gall (1983) validity is defined as the extent to which the procedures actually accomplish what they seek to measure, where Saunders et al (2007) define validity as an aspect which is concerned with whether the findings are really about what they appear to be about. To insure validity, the measuring instrument

(interview guide questions) was pilot tested to forty (40) respondents in Dar es Salaam city. The responses and comments of these forty (40) respondents were used to modify interview guide questions to ensure that there would be no problem in recording data. This enabled the researcher to obtain some assessment of the validity of questions and the likely reliability of data collected.

3.13 Variable Measurements

3.13.1 Independent variables

The independent variables are the SERVQUAL dimensions: Tangibles, Responsiveness, Reliability, Assurance and Empathy developed by Parasuraman et al. (1988). These dimensions indicate customer retention by taking into account the performance of the service which influences an individual to remain a customer of the bank.

3.13.2 Dépendent variable

Customer retention was the dependent variable for this study. Customer retention is an indicator of customers being satisfied with the services rendered by the bank. Customer retention indicators include repeat business of the customers, referrals by the customers as well as the customers' preference of the bank to others. According to this study, customer retention indicators include number of years a customer continues demanding CRDB bank services, and other qualities customer like from CRDB which influences an individual to remain a customer of the bank these includes customer care, fast service delivery and shorter of ques.

CHAPTER FOUR

RESEARCH FINDINGS

4.1 Introduction

This chapter presents and analyses the research findings. It gives the overview of the description of the period in which respondents have been CRDB customers. Further, it gives out the extent of influence of tangibles on customer retention, the extent of influence of reliability of bank service on customer retention, the extent of influence of responsiveness of bank service providers on customer retention, the extent of influence of assurance of bank services on customer retention, and the extent of influence of empathy of bank service providers on customer retention by CRDB bank in Dar es Salaam.

4.2 Customer Length of stay with CRDB bank

In order to explain the influence of service quality on customer retention, respondents were first asked on their duration of relationship with the bank. About 49.4% (76) of respondent had been CRDB customers for one to five years, while only 1.9% (3) had less than a year. Also 33.1% (51) of respondents had been CRDB customers for six to ten years. Lastly 15.6% (24) of respondents had been CRDB customers for eleven and above years. Table 4.1 below shows the length of customer stay with CRDB bank.

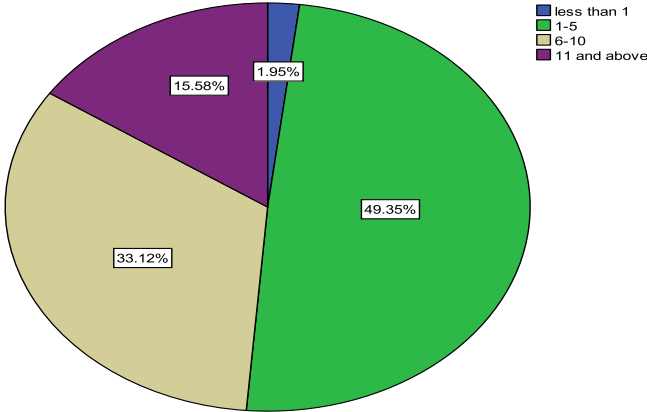
Table 4.1: Length of Customer stay with CRDB bank

Length of stay (years)		Frequency	Percent
Valid	less than 1	3	1.9
	1-5	76	49.4
	6-10	51	33.1
	11 and Above	24	15.6
	Total	154	100.0

Table 4.1 shows that 76 respondents have been with the bank for a period of one to five years. This gives an average retention per year of 15.2 for the first five years. Those who have been with the bank for a period of six to ten years are 51; this gives an average

retention per year of 10.2 for the next five years. The average retention for ten years is 25.4. Neglecting the lower category of less than one year and the upper category of more than 11 years, the average retention for ten (10) years is 25.4 customers which is equivalent to 16.5% of all respondents. Customers' length of stay is also shown in figure 4.1 below.

Figure 4.1: Length of Customers' stay with CRDB bank.



It should be noted that because of labor and general human mobility, the retention rate may not necessary mean customer satisfaction or dissatisfaction with the service quality of CRDB bank.

4.3 Service Quality and Customer Retention from CRDB Bank

In this section, specific objectives of the research are analyzed and presented. The section intends to examine the number of customers who had been influenced by service quality and made them stay with CRDB bank. Respondents were asked to rank the variables that influenced their stay at CRDB bank according to their perceptions of service quality for each service quality dimension. Each of the sections 4.3.1 to 4.3.5 below deals with the specific objectives of the study.

4.3.1 Influence of Tangibles on Customer Retention

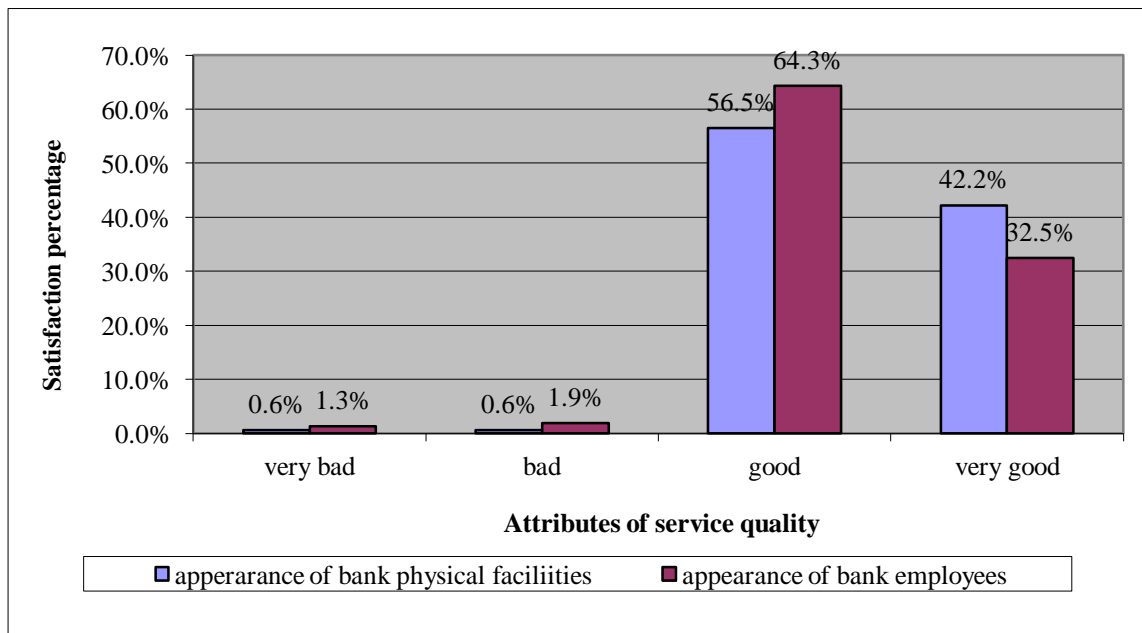
Tangibility deals with the appearance of physical facilities and employees. The researcher wanted to know the extent of influence of tangibles on customer retention. Table 4.2 below shows the respondents' responses.

Table 4.2: Perception of respondents on two categories of Tangibles

Item	strongly disagree		Disagree		agree		strongly agree	
	(f)	(%)	(f)	(%)	(f)	(%)	(f)	(%)
Appearance of bank physical facilities	1	.6	1	.6	87	56.5	65	42.5
Appearance of bank employees	2	1.3	3	1.9	99	64.3	50	32.5

For this specific objective, the findings show that about 98.7% (152) of the customers were satisfied with the general appearance of physical facilities, while only 21.3% (2) of respondents had a negative opinion on the facilities of the bank. In the aspect of the general appearance of the CRDB employees, out of 154 respondents 196.8% (149) said they were impressed by with the employees appeared. However 3.2% (5) of the respondents indicated that they were not impressed with the appearance of employees. Apart from table 4.2 above, the information is also presented in a figure below.

Figure 4.2: Perception of respondents on two categories of Tangibles



4.3. 2 Influence of Reliability of Bank Service on Customer Rétention

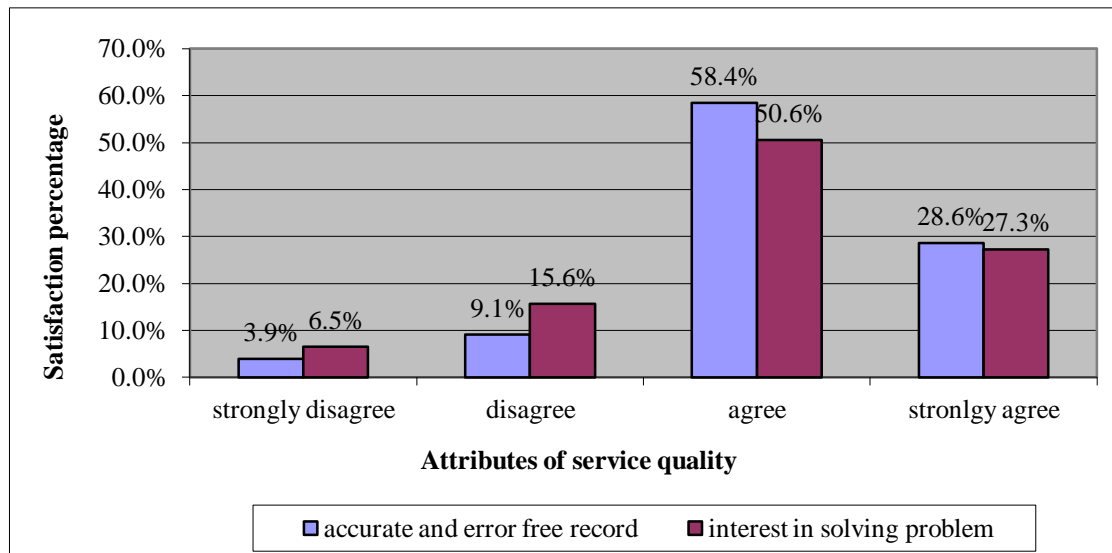
The next dimension was Reliability of bank services. Reliability dimension of a corporate entity is the ability to perform the promised service dependably and accurately. In this study, the researcher was interested on determining the influence of reliability of bank services on customer retention. Reliability was categorized in terms of interest of bank employees to solve customers’ problems and to keep accurate and error – free records. Table 4.3 below shows the respondents perceptions on the two categories of reliability.

Table 4.3: Perception of respondents on two categories of reliability

Item	strongly disagree		Disagree		agree		strongly agree	
	(f)	(%)	(f)	(%)	(f)	(%)	(f)	(%)
Interest of bank to solve customers’ problems	10	6.5	24	15.6	78	50.6	42	27.3
Bank operation in accuracy and error –free records	6	3.9	14	9.1	90	58.4	44	28.6

Figure 4.3 above shows that 77.9% (120) of respondents were satisfied with employees’ interest in solving customers’ problems. However about 22.1% (34) were not satisfied. The other category was about accuracy and error – free operations. The findings show that about 87.0% (134) of the respondents were satisfied with the operations of CRDB bank in terms of accuracy and free of errors records. Respondents who were not satisfied with this category consisted of only 13.0% (20). In business 22.1% is not something to be ignored. It needs attention by the bank management. Apart from table 4.3, figure 4.3 below summarizes information obtained above.

Figure 4.3 Perceptions of respondents on two categories of reliability



4.3.3. Influence of Responsiveness of Bank Service Providers on Customer Rétention

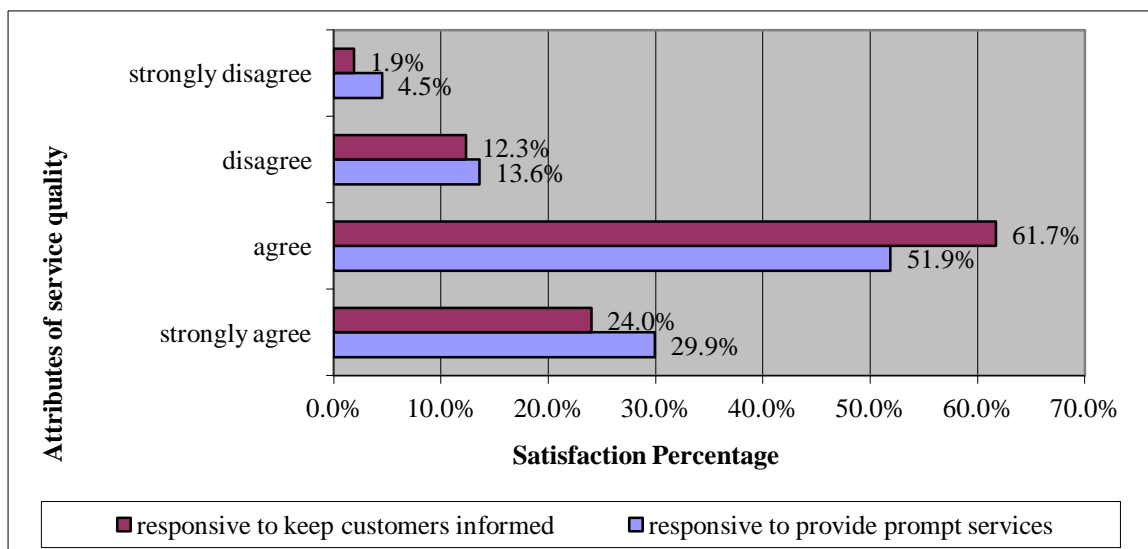
Responsiveness was the third dimension of service quality. Responsiveness is the willingness to help customers and provide prompt services such as making information available to customers and not appearing too busy to respond to customers' request. In this study responsiveness was categorized into employees' willingness to give information to customers about when services are to be offered and responsiveness of bank employees in giving prompt services to customers. Table 4.4 below shows the perceptions of respondents on two categories of responsiveness.

Table 4.4: Perception of respondents on two categories of responsiveness

Item	strongly disagree		Disagree		agree		strongly agree	
	(f)	(%)	(f)	(%)	(f)	(%)	(f)	(%)
Responsive to give customers correct information	3	1.9	19	12.3	95	61.7	37	24
Responsive to provide prompt service	7	4.5	21	13.6	80	51.9	46	29.9

Table 4.4 above shows that 85.7% (132) of the respondents were satisfied with the responsiveness of the employees in terms of keeping customers informed about when services are to be provided. However, the remaining percentages of the respondents, 14.3% (22), were not satisfied with the responsiveness of the employees of CRDB bank. On the other hand 81.8% (126) of the respondents were satisfied with the responsiveness of the employees in giving prompt services to customers while 18.2% (28) were not satisfied. Again, 18.2% underperformance is not something to ignore in business. Management has to take it seriously in order to raise performance. The actual perceptions are shown on the histogram below.

Figure 4.4: Perception of respondents on two categories of responsiveness



4.3.4 Influence of Assurance of Bank Services on Customer Réention

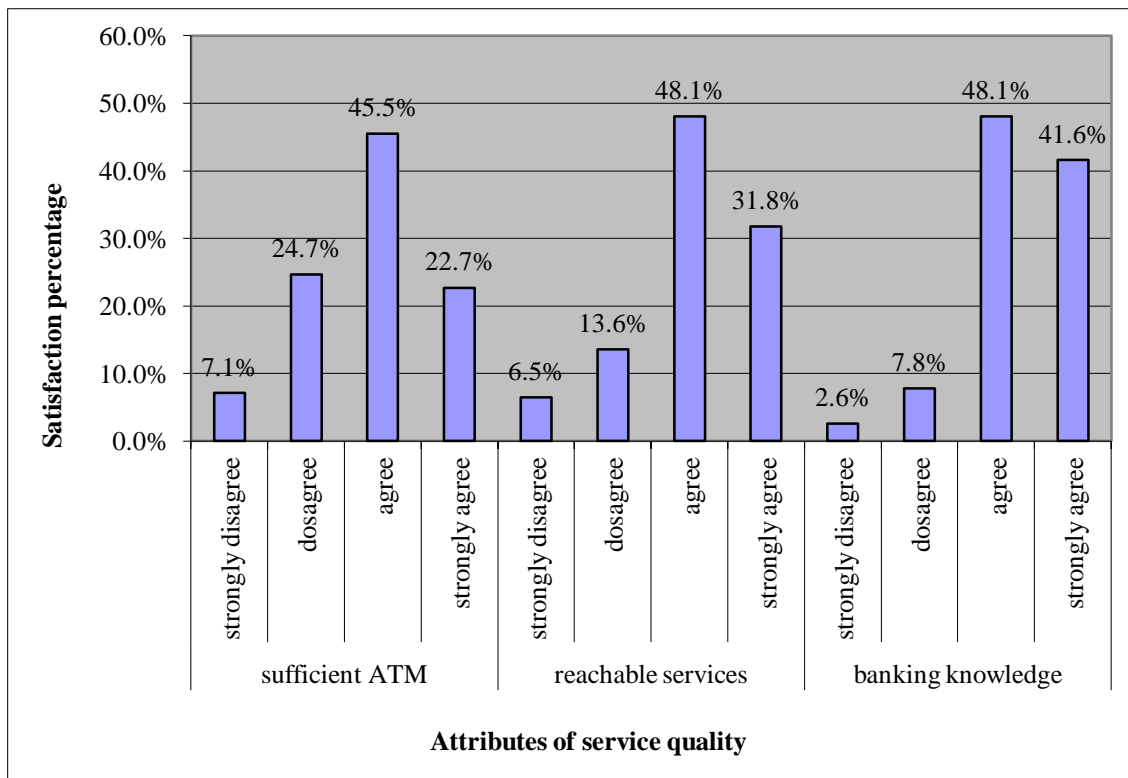
The fourth dimension of service quality was assurance. This dimension is the knowledge and courtesy of employees and their ability to inspire trust and confidence. In this study assurance of bank service was categorized based on three sub dimensions which are sufficiency of ATM network, easiness to reach bank services, and competence and knowledge of the bank employees to solve customers' problems as shown in Table 4.1 below.

Table4.5: Perceptions of respondents in different categories of Assurance

Item	strongly disagree		Disagree		agree		strongly agree	
	(f)	(%)	(f)	(%)	(f)	(%)	(f)	(%)
sufficient ATM network	11	7.1	38	24.7	70	45.5	35	22.7
easily reached services	10	6.5	21	13.6	74	48.1	49	31.8
knowledge to answer questions	4	2.6	12	7.8	74	48.1	64	41.6

Here, the researcher wanted to know the extent of assurance of the services offered by CRDB bank in terms of ATM network, easy of reach to bank service, and competence and knowledge in terms of answering customers’ questions. As far as network is concerned findings revealed that 68.2% were satisfied with network while 31.8% were not satisfied. On ease of reach to bank services 79.9% of respondents said that the services were easily reachable in Dar es Salaam while 20.1% did not agree. Lastly on competency and knowledge of bank employees findings revealed that 89.7% were satisfied with this category while 10.84% were not. The above information is also presented in the figure below.

Figure 4.5: Perceptions of respondents on three categories of Assurance



4.3.5 Influence of Empathy of Bank Service Providers on Customer Retention

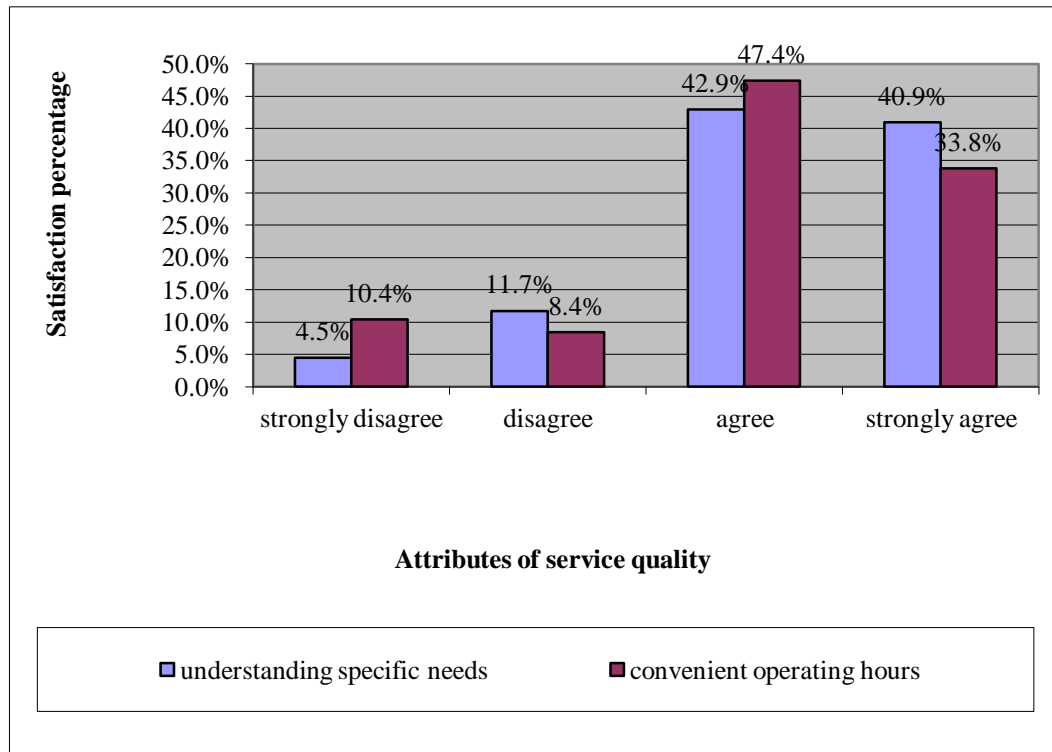
Empathy was the last dimension of service quality investigated in this study. This dimension deals with the caring, and individualized attention the firm provides to its customers. In this study the researcher examined empathy in terms of employees' capacity of understanding of and attention to customers' specific needs, and convenience of bank operating hours. Table 4.6 below shows the perception of respondents on the two categories of Empathy.

Table 4.6 Perception of respondents on the two categories of Empathy

Item	strongly disagree		Disagree		agree		strongly agree	
	(f)	(%)	(f)	(%)	(f)	(%)	(f)	(%)
Employees' understanding of and attention to customers' needs	7	4.5	18	11.7	66	42.9	63	40.9
Convenience of bank operating hours	16	10.4	13	8.4	73	47.4	52	33.8

On the category of empathy, 83.8% (129) of respondents were satisfied with the employees' understanding of and attention to customer specific needs. Only 16.2% (15) were not satisfied. On the category of convenience of bank operating hours about 81.2% (125) of the respondents were satisfied with it while 18.8% (29) of respondents were not satisfied. Overall customers were satisfied with this dimension of service quality. However 16.6% were not satisfied with the category of knowledge of and attention to customers' specific needs. On the other hand 18.8% were not satisfied with convenient of operating hours. In business 16.2% and 18.8% underperformance are on the high side. Management should not neglect this.

Figure: 4.6 Perception of respondents on two categories of Empathy



4.4 Over all Mean Percentage of Service Quality From CRDB Bank

Our study revealed that, Service Quality has great influence on customer retention of CRDB bank. Overall mean percentage of each Service Quality dimensions was measured. Tangibles of bank ranked first with an overall mean of 97.75% of responded being impressed with tangibles aspect of the bank and only 2.25% not being impressed, The next in rank was Responsiveness of bank employees where a mean of 83.75% of respondents were satisfied with the responsiveness of employees while 16.25% were not satisfied. Empathy was the third in rank where overall mean of satisfied respondents was 82.5% while 17.5% were not. The fourth in rank was Reliability of bank services with an overall mean of 82.45% of satisfied respondents while only 17.55% were not satisfied. The last in rank was Assurance of bank services with an overall mean of satisfied respondents being 79.08% while 20.92% were not. The above general findings are summarized in table 4.7 below.

Table 4.7: Shows overall mean percentages of service quality by CRDB bank

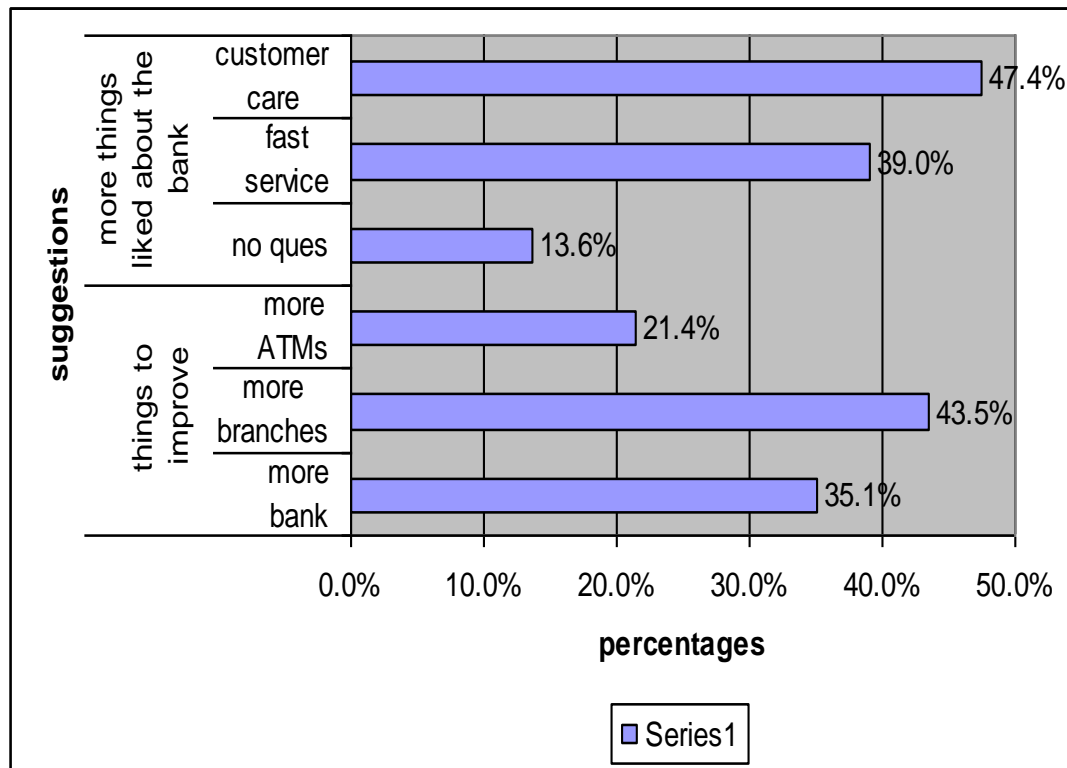
Service Quality Variables	Overall mean % of customers satisfied With SQ of CRDB bank	Variable rank	Overall mean % of customers not satisfied with SQ of CRDB bank	Variable rank
Tangibles of bank	97.75%	1	2.25%	5
Responsiveness of bank employees	83.75%	2	16.25%	4
Empathy of bank Employees	82.5%	3	17.5%	3
Reliability of bank Services	82.45%	4	17.55%	2
Assurance of bank Services	79.08%	5	20.92%	1

Table 4.7 above indicates that the variables which need more attention are assurance of bank services, followed by reliability and empathy. Responsiveness also needs some attention.

4.5 Other qualities of CRDB Bank which Impressed Customers

The researcher wanted to know other qualities that impressed customers at CRDB bank. Findings revealed that customer care, fast service delivery and absence of queues were other qualities which impressed them. Figure 4.7 below shows the responses of the customers. The figure also shows respondents' suggestion on ways to improve service quality in order to increase customer retention by CRDB bank.

Figure 4.7: Other qualities of CRDB Bank customers like and things to be Improved



As shown in figure 4.7 above, respondents mentioned other qualities that influenced their stay with CRDB bank. The figure shows that 47.4% of the respondents were happy with customer care i.e. Services which impressed them include: deposit and cash withdrawal and digital counting machine for customers who seek services from frontline managers. The figure also shows that 39.0% were satisfied with the fast service delivery in terms of backward message after getting ATM bank service, Simu banking, Card less ATM services, M – pesa service. The remaining 13.6% were impressed by the absence of ques when they wanted banking services. Respondents also suggested things to be improved these include: more ATMs, more branches, and more bank tellers in Dar es Salaam region. Figure 4.7 above shows that 43.5% of respondents recommended for more branches in order to reduce ques in certain areas. About 35.1% recommended that CRDB should increase number of tellers, while 21.4 recommended for more ATMs.

CHAPTER FIVE

DISCUSSION OF THE FINDINGS

5.1 Introduction

The purpose of this study was to examine the influence of Service Quality on customer retention. Therefore, this chapter discusses the findings obtained from the study. The variables analyzed consisted of Tangibles, Responsiveness, Reliability, Assurance and Empathy dimensions of service quality. The results of this study indicate that service quality has significance influence on customer retention of CRDB Bank. Likewise, in a study by Lam and Burton (2006) it was revealed that perceived service quality has strong relationship with loyalty which influences the customers to continue using the particular bank as well as to recommend it to others.

5.2 Tangibles

In this study, the results revealed that Tangibles ranked first where on average about 97.75% of respondents were impressed with appearance of bank physical facilities and appearance of bank employees while 2.25% were not impressed with appearance of bank physical facilities, and appearance of bank employees. The findings of this study support the study done by Hassan (1998) who revealed that 62% of respondents agreed that bank branches had modern looking equipments, 29% were uncertain and only 9% disagreed that bank branches had modern physical facilities. In the same perspective, it was found that a bank can create customer relationship by delivering added tangible and intangible elements of the core products. Strong competitive positions are the outcome of product/service quality and differentiation (Zineldin, 2005). Therefore, it can be concluded here that CRDB bank tangibles are satisfactory. Since the respondents' preferences are subjective, a score over 90% is good enough.

5.3 Responsiveness

Responsiveness reflects the willingness or readiness of employees to provide quick services to customers. Customers are very keen to employees' behavior in service industries, especially in the banking industry. Research findings of this study reveal that

responsiveness was the second in rank where on average 83.75% of respondents agreed that they were satisfied with employees' ability to give customers information when services are to be performed, and the employees promptness to give customer service, respectively. However 16.25% were not satisfied with responsiveness of CRDB employees on the above aspects. Here there is room for improvement since at least 14% of respondents were not satisfied with this dimension. Management can still do better.

In the same perspective, Tahir and Abu Bakar (2007) investigated service quality and customer satisfaction of commercial banks by using SERVQUAL model in Malaysia. They found that responsiveness is rated as the most important dimension of service quality. It was found that accurate communication, proper service delivery and effective conflict handling results into overall customer satisfaction regarding bank services in Malaysia (Nelson, 2006). In addition to that, service recovery and problem solving have been recognized as important parts of services quality (Hart *et al.*, 1990; Dabholkar *et al.*, 1996; Swanson and Kelley, 2001; Nelson and Chan, 2005).

5.4 Empathy

In the banking sector customer care and individual attention is indispensable for better performance due to stiff competition. In this study empathy came third in rank since on average 82.5% of respondents agreed that they were satisfied with employees understanding of customers' specific needs, and convenience of bank operating hours. On the other hand, 17.5% respondents were not satisfied with performance of the two sub dimensions of empathy. Here, again, the management of CRDB can improve on this.

5.5 Reliability

Reliability is a very important determinant of service quality besides good personal service, staff attitude, knowledge and skills (Walker, 1990). In this study, the findings show that reliability was fourth in rank where in average 82.45% of respondents were satisfied with employees' willingness in solving customer problems, and accuracy with free error records of CRDB bank respectively. On the other hand, 17.55% were not

satisfied with the two aspects respectively. In this aspect willingness to solve customers' problems needs improvement. This supports the study by Berry and Parasuraman (1991) who reported that reliable service is the outcome of the continuous improvement. Similarly in another study, it was found that service reliability is the service "core" to most customers. So managers should use every opportunity to build a "do-it-right-first" attitude (Berry *et al.*, 1990).

5.6 Assurance

Assurance of bank services indicates the employees' knowledge, courtesy and their ability to convey trust and confidence to their customers. In this study, Assurance was fifth in rank. Here on average 79.08% of respondents agreed that they were satisfied with sufficiency of CRDB Bank network, easiness to reach CRDB bank services, and competence and knowledge of CRDB employees to solve customers' problems. However, on average 20.92% were not satisfied with the above categories of assurance. Findings also revealed that CRDB bank network was the least satisfactory aspect of assurance. With 68.2% of the level of satisfaction management needs to increase efforts to expand its network. Also the easiness of reach should be improved through increased branch network.

5.7 Other qualities which impressed customers about CRDB Bank

Apart from the specific objectives discussed above other qualities which impressed customers about the CRDB Bank were explored. Respondents mentioned these other qualities to be customer care, which impressed 47.4% of customers, promptness of service delivered which impressed 39.0% of respondents, and absence of queues which impressed 13.6% of respondents.

5.8 Ways of improving service quality for enhancing customer retention

Respondents recommended CRDB Bank to further expand its branch network for all districts in Dar es Salaam region. Currently only few districts in Tanzania have CRDB bank branches. They also recommended for more branches in Dar es Salaam to reduce

ques in certain areas of the city. Moreover they recommended for improvement of complaint handling by increasing the number of tellers. This is because, the effective complaint handling can have a dramatic impact on the customer retention rate, deflect the spread of damaging word of mouth, and improve the bottom line performance. Complaint handling strategies are important particularly in managing relationships in service businesses. Note that the challenges in managing quality, combined with important role played by customers in the service production process and evidence that customer loyalty drives up profitability make complaint handling a critical moment of truth (Berry & Parasuraman 1991).

5.9 Contribution of the Study

The contribution of the study can be described in terms of different aspects as well as specific beneficiaries of the findings. One aspect is its contribution to specific potential beneficiaries, the commercial banks, which can utilize the findings to plan and improve the overall service quality for enhancement of customers retention. The study has also contributed to the academic body of knowledge, specifically in the way of how service quality, if properly handled, may have significant impact on customer retention, specifically in the banking industry. Moreover, Since not much has been done in this area in Tanzania, this study has contributed some basic information necessary for undertaking further research; for example the study has found that assurance of bank services was ranked less than other variables in terms of influencing customer retention at CRDB bank. This slightly contradicts with previous findings from almost the same kinds of studies done in developed nations that rated assurance of bank service as the best performing dimension in service quality. This supports the study done by (Ioanna, 2002) on “The Role of Employee Development in Customer Relations, in UK Retail Banks. The study revealed that the quality of staff has an impact on the quality of customer services which are vital in gaining a competitive advantage in the banking industry. It would be interesting to conduct similar studies for other Tanzanian banks in order to see how this dimension of service quality performs.

CHAPTER SIX

SUMMARY, IMPLICATION OF THE FINDINGS AND CONCLUSION

6.1 Introduction

This chapter provides a summary of key findings of the study and gives implication of the findings, recommendations based on the findings and specific objectives outlined in chapter one. Lastly, the chapter ends up with a conclusion for the whole study.

6.2 Summary of Key Findings

The findings of this study are that service quality has an impact on customer retention for CRDB bank. The findings of this study, in line with the specific objectives, are presented in the paragraphs that follow.

The First specific objective of the study was to examine the extent to which tangibles, as one of service quality dimensions, influences retention of the customers. This dimension was evaluated in terms of appearance of bank physical facilities, and appearance of CRDB bank employees as indicators of tangibles. In case of physical facilities 98.7% of respondents were satisfied with service quality while in terms of employees' appearance 96.8% were satisfied.

The second specific objective was to examine the extent to which responsiveness of CRDB employees influences customer retention. The findings revealed that responsiveness of bank employees greatly influences customer retention. This dimension was evaluated in terms of responsiveness of bank employees in giving information to customers about when services are be performed, and responsiveness of bank employees in giving prompt service to customers. In case of responsiveness of bank employees in giving information to customers about when services are be performed, 85.7% were satisfied. However 81.6% of respondent were satisfied with responsiveness of bank employees in giving services to customers promptly.

The third specific objective was to examine the extent to which reliability of bank services influences customer retention. Findings revealed that reliability of bank services provided by CRDB to the customers' influences customer retention. This dimension was evaluated in terms of employees' willingness to attend to customers' problems and keeping accuracy and error – free records as indicators of this dimension of service quality. In case of employees' willingness to attend customer problems 77.92% of respondents were satisfied with this aspect of service quality while in terms of accuracy and error – free records 87% were satisfied.

The fourth specific objective was to examine the extent to which assurance of bank services influences customer retention. Findings revealed that assurance of bank services provided by CRDB Bank influences customer retention. This aspect was evaluated in terms of sufficiency of CRDB ATM's network, easy customer accessibility of CRDB services, and competence and knowledge of CRDB employees to solve customers' queries. The study findings indicate that 68.2% were satisfied with sufficiency of CRDB ATM's network, 79.9% were satisfied with easy accessibility of CRDB services, and 89.16% were satisfied with competence and knowledge of CRDB employees to solve customers' queries.

The fifth specific objective was to examine the extent to which empathy influences customer retention. This was evaluated in terms of understanding customer specific needs and convenience of operating hours for customers as indicators of dimension of service quality. In case of employees' understanding of customer specific needs, 83.8% were satisfied while in terms of convenience of CRDB bank operating hours, 81.2% of were satisfied.

Respondents were also asked to mention other areas the bank should do to increase service quality in order to increase retention of customers. From the customer' point of view three areas were pointed out as areas needing further improvement. These were

more ATM's, expansion of CRDB coverage network at least up to each district level, and further improvement in complaint handling (by increasing tellers). Specifically 21.43% recommended CRDB Bank to increase more ATM's, 43.5% recommended the expansion of CRDB coverage network at least to each district level, and 35.1% recommended further improvement in complaint handling by increasing tellers.

6.3 Implication of the Findings

This section discusses the implications at national level, organization level, and individual level. They are specifically discussed in the context of Tanzanian banking industry.

6.3.1 Implication for Tanzania policy makers

The findings of this study indicate that service quality variables play a major role in the whole process of service delivery. The study has specifically focused on how service quality may have an influence on customer retention in Tanzania commercial Banks. Specific findings of this study indicate that Tangibles of CRDB bank as seen by customers, Responsiveness practiced by CRDB bank employees, Reliability of CRDB bank services, Assurance of CRDB bank services, and Empathy practiced by CRDB bank employees have significant influence on customers' retention by the bank. This implies that because of fierce competition in the banking industry, especially when all commercial banks are offering the same kind of services, the service quality dimensions which include in this scenario, Tangibles, Responsiveness, Reliability, Assurance, and Empathy will be the differentiating factors. The study findings implicitly provide a basis for global suggestions and recommendations. The overall suggestion is that the country's regulatory bodies namely, the Bank of Tanzania (BoT) and the Fair Competition Commission (FCC) should properly assess the effectiveness of complaint handling by CRDB bank as well as other service quality dimensions and impose them on other commercial banks as mandatory requirements for them to offer the service

quality required by the customers. This will enable Tanzanian commercial banks to compete globally.

6.3.2 Implication to CRDB Bank

Managers of CRDB bank can use the study model and the information contained in this study to develop customer-centric service approach to deal with customers in order to avoid the tendency of existing customers to switch to a competing bank. By identifying what customers perceive to be quality, CRDB bank can revise, redesign or repackage its service operations and tailor them to match with customer needs and preferences, especially for the areas which need improvement like assurance of bank services, bank ATM'S, Complaint handling, and bank network coverage, (as mentioned by customers) as area which need improvement.

The study is expected to serve as a guide for CRDB Bank to develop policies which will improve its overall service delivery, especially in areas where the degree of performance of service quality appears to be low, for enhancing customer retention. This determination will give CRDB Bank a competitive advantage and make the bank one of the preferred banks in the commercial banking subsector. Moreover, by virtue of improved services, other banks, and companies alike, can benchmark the policies and strategies of CRDB Bank for their quality improvement programmes, leading to overall improvement in the banking sector and, possibly, translating it to other sectors of the economy.

6.3.3 Implication to Individuals

The study findings revealed that CRDB Bank can greatly increase its customer retention rate by focusing on service dimensions which scored low in terms of performance. This will implicitly induce more customers to remain loyal to the bank. However satisfied customers will, by word of mouth, convince others to seek CRDB Bank services.

6.4 Direction for the Future Research

The study focused on the influence of service quality on customer retention. The findings of the study show that tangibles, responsiveness, reliability, assurance and empathy, as dimensions of service quality, have significant influence on customer retention. It is recommended that further studies be conducted to focus on the behavioral and financial aspects of service quality on customer retention in the banking industry in Tanzania.

6.5 Recommendations

Based on the analysis and the findings of this study, the following are recommended in order to increase customer retention by CRDB bank.

First, it is recommended that CRDB bank should maintain its tangibles since on average 97.75% of respondents were impressed with tangibles of the bank. This specific objective ranked as the first factor of service quality which influences customer retention by the bank. However, since customer and preferences vary over time and they are subjective, it is recommended that bank management should continually update their tangibles in line with the changing tastes and preferences of customers. Note also that the condition of physical surroundings is seen as a tangible evidence of care and attention to details exhibited by the service provider.

Second, regarding the reliability of bank services, it is recommended that the aspect be improved because more than 17% of respondents were not satisfied with the reliability of bank services especially in terms of willingness of bank employees to solve customers' problems, and in terms of keeping accuracy and free of error records. It is further recommended that service delivery should be expeditious in order to impress the bank customers.

Responsiveness of bank employees is another area of improvement. Even though, on average about 83.75% of respondents were satisfied with this dimension of service

quality, there is still room for further improvement. It is therefore recommended that the bank should pay more attention on prompt service delivery and timely information on when services are to be offered. Timely information will make customers aware of when services will be provided and this will not keep them waiting for no apparent reasons and it will reduce negative customer perception on this aspect of service quality.

Fourth, a good number of respondents recommended for more ATM outlets. It is, therefore, recommended that the bank should substantially increase its ATM outlets in the city. Furthermore, as regards service quality, it is recommended that the management should continue to provide training to their staff to enable them cope with the changing and competitive business environment in banking industry. This recommendation is based on the respondents' perception on assurance of bank services. Assurance will enable the bank to convey trust and confidence to their customers.

Fifth, Empathy of bank employees scored an average of 82.5%. This means there is still room for improvement. It is therefore, recommended that the bank should pay more attention on this dimension of service quality. In this world of customer consciousness on service quality, bank employees should be caring and should pay individualized attention to customers' demands in order to make them feel welcome by contact staff.

Sixth, respondents were of the opinion that bank branches should be increased throughout the districts. Moreover, they were of the opinion that complaint handling should further be improved. It is, therefore, recommended that management should look into this issue and the issue of more ATMs, from the economic point of view. If this will not compromise the economic feasibility of implementing these recommendations, then it is worthwhile understanding them.

6.6 Conclusion

As it was stated in the introductory chapter, the banking industry is operating in a very competitive environment where customer retention must be valued as an effective tool that CRDB bank can use to gain strategic advantage and survive in today's ever increasing competitive business environment. Moving towards the goal of improved service quality, because of strong competition and the rapid change in technology, associated with customers' continually changing needs, CRDB bank has to pay attention to service quality and start thinking strategically on how to provide a higher quality service in order to create everlasting relationship with its customers. This study has revealed that CRDB bank has, to a great extent, tried to provide quality services to its customers. However there is still room for improvement of quality services. The banking Industry is continuously affected by the ever increasing technological progress. This implies that CRDB bank should not be contented with its current achievement. It must continually revise, redesign or repackage its service operations and tailor them to match up with customers' needs and preference while it continues to improve the quality of services delivered to its customers. This will enable it sustain or increase its rate of customer retention.

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APPENDICES

APPENDIX I: RESEARCH WORK PLAN AND RESEARCH BUDGET

Research work plan

DATE	EVENT/ACTIVITY	RESPONSIBLE PERSON	LOCATION
WEEK I-	Preparation of interview Guide	Researcher	Dares salaam
WEEK 2	Reporting to CRDB bank for familiarization	Researcher, CRDB bank MGT, & staff	Dares salaam
WEEK 2 – 3	Conducting interviews	Researcher	Dares salaam
WEEK 4 – 5	Conducting interview	Researcher	Dares salaam
WEEK 6 – 8	Data analysis, writing and checking	Researcher	Dares salaam
WEEK 9 – 10	Recommendation, editing and consulting the supervisor	Researcher	Morogoro
WEEK 11 -12	Completing field and final research work	Researcher	Dares salaam
WEEK 13 – 14	Correction and submission of the final research work	Researcher	Morogoro

Research budget

S/N	ITEMS	DURATION (days)	COST TSHS IN	TOTAL
1	Movement in Dares salaam	85	@ 3000/=	255,000/=
2	Secretarial services	-	285,000/=	285,000/=
3	Photocopy and binding books of final Dissertation	-	200,000/=	200,000/=
4	Internet searching materials	-	80,000/=	80,000/=
5	Communication phone card	-	100,000/=	100,000/=
6	Meals & Accommodation (45,000 *85)	85	3,826,000/=	3,826,000/=
7	Total		4,746,000/=	4,746,000/=

APPENDIX II: QUESTIONNAIRE TO CUSTOMERS OF CRDB BANK

1. For how long have you been a customer of CRDB Bank? (Cycling the right answer provided below).

1. Less than 1year
2. 1-4years
3. 5-9years
4. 10 and above years

2. There are qualities of CRDB which have influenced you to remain a customer of the bank. Please show the extent do you think the features described in the statements below has influenced you by ticking the right box provided for each row;-

Statements	Rating Key			
	1 Very bad	2 bad	3 Good	4 Very good
Tangibles				
The appearance of bank physical facilities.				
The appearance of bank employees				
Reliability				
Bank shows sincere interest in solving my problem				
Bank operates its activities in accurate and errors free record				
Responsiveness				
Bank employees are responsive to give me information about When services are to be performed.				
Bank employees are responsive to give me prompt service.				

Statements	Rating Key			
	1 Very bad	2 bad	3 Good	4 Very good
Assurance				
Sufficient number of bank ATM's with good network.				
Easiness to reach bank services.				
Competence and knowledge of bank employees in solving customers' problems.				
Empathy				
Bank employees understand my specific needs.				
Bank operating hours convenient to me				

3. Mention three other things do you like about this bank?

- i.
- ii.
- iii.

4. Mention three other things do you like to be improved at bank.

- i.
- ii.
- iii.