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ABSTRACT
Customer service is the series of activities designed to enhance the level of customer satisfaction—that is, the feeling that a product or service has met the customer’s expectation and even beyond his/her expectation. Customers evaluate a product or service in terms of whether that product or service has met their needs and expectations. Customer satisfaction is derived largely from the quality and reliability of products and services. Commercial banks encounter similar problems in meeting customer’s expectation of services and customer satisfaction. The general purpose of this paper was to assess effect customer service on performance of commercial banks in Kenya. Target population was 202 employees of Banks drawn from eight commercial banks operating in Kitale town. Simple random sampling was used to select a sample size of 61 employees.

Data was collected using questionnaires and analyzed and presented using descriptive statistical tools including the use of frequency, tables and Pearson Correlation Coefficient and multiple regressions with the help of Statistical Package for Social Sciences (SPSS). Research findings revealed that waiting situation affects the performance of the banking sector ($\beta_1 = 0.169$, $\rho < 0.05$). Segmentation affects the performance of the banking sector ($\beta_2 = 0.279$, $\rho < 0.05$). Service delivery channels is a key determinant in the performance of the banking sector ($\beta_3 = 0.249$, $\rho < 0.05$) and that communication does affect the performance of the banking sector ($\beta_4 = 0.236$, $\rho < 0.05$). From the study findings there is evidence that waiting situation practices allows customers to save on time and avoid lengthy procedures which creates dissatisfaction on segmentation that seem to play a pivotal role in performance of the bank sector. Multiple service delivery roles positively on performance of the bank sector communication has tremendously increased performance in the banking sector thus the study advocates for better and efficient ways of saving on time in order to increase customer satisfaction. Thus the managers should increase market and customer segmentation because this will have a significant positive effect on bank performance. In addition, bank sector should adopt advanced technological methods such as self-inquiry facility for inquiries and view of transactions in the account.

Keywords: Delivery Channel, Customer Service Practices, Internal Segmentation, Waiting situation

Introduction

The goal of every organization is to meet the needs and the requirements of its stakeholders not only ensure the survival of the organization but also allow it to flourish. Customers are presumed to be one of the most important stakeholders in any organization because without them, organizations are not likely to succeed. Hence, marketers emphasize on research in the area of
consumer behavior and particularly behavioral intention. Knowledge of consumer behavior will go a long way in ensuring effective marketing policies towards the interest of customers which will eventually facilitates positive customer attitude towards the organizations. More especially, since customer behavioral intention is a strong indication of his actual behavior (Kotler, 2006).

The retail banking industry is in the midst of a significant transformation. A combination of pressure to adopted new regulatory framework, high competitive markets and its dynamics is driving banks to develop become innovative business (IBM Corporation, 2008). In addition, currently financial institutions are improving communications, business processes and connectivity so as to meet these trends head-on with the aim of increasing their customer base, manage risks effectively, and service geographically (Elsmore, 2001).

As with high market competitiveness, the banking sector there will be winners and losers, as results of the ability to respond to changing market and economic conditions quickly and effectively (Hitt et al., 2000). As such banks need an advanced core banking solution that can help them to reduce costs, improve efficiency in bank operations, access deeper customer in information, comply with increasing regulations and proactively manage risk (IBM Corporation 2008). The banking industry world-wide is being transformed. Higher penetration, industry consolidation and international integrations (mergers and acquisitions) have changed the banking industry structure.

Elsmore (2001) avers that banks running legacy systems typically incur large expenses in maintaining multiple stand-alone applications, which operate on different frameworks and seldom seamlessly communicate between each another. This leads to the rise of unnecessary complexities in product definition, bundling, customer relationship management, improve in regulatory compliance, customer service and timely product development. Adopting a new generation core banking solution can help banks innovate and cater to changing market and customer requirements, launch new products quickly, increase performance, and reduce operational costs.

The banking landscape has gradually changed over the last decade, with most large-size and mid-tier banks aggressively increasing their capital base and extending their branch networks across the country; while a few have expanded regionally, 2009 (CBK, 2010). A workforce that is knowledge and skilled, and customer centric keeps a company competitive and makes the difference amidst such competition. It must be said that the vital force of an organization is constituted by its service delivery.

With such competition, customer service management then becomes important in any commercial organization. All management functions reduce to one common denominator, that of service management. Today, more than ever before, customer service occupies the centre stage of all economic activities. Customer service is a major asset that can distinguish a company from the rest in this error of great technological reliance. All corporate strengths are dependent and centered on the quality of service to the customer who forms the basis of existence for the company. This will differentiate between better run companies and the rest.

In Kenya, customer service management is a compulsory section. The customer service unit has become important in many ways for most organizations, but the general view is that many organizations do not take it too seriously. Customer service may be provided by a person,
group or by an automated means. With stiffer competition among domestic and foreign banks, therefore it is important for the commercial banks in Kenya to improve the quality of their services to enhance performance. However, with the prevailing competition in banks leading to many options to choose from, customers have become stronger and hard to please. Customers have become increasingly demanding, as they require high quality, low priced and immediate service and can be turned away by inferior levels of service. Gupta (2012) also says that customers who experience poor service levels often tell their friends and family members about the bad experience to warn them away. Success of a service provider will depend on the high quality relationship with customers, which determines customer satisfaction and loyalty. This is in line with the perception that the key to successful marketing of financial services is identification and packaging of customers’ needs to their satisfaction. So much literature has shown the link between customer service practices and other factors such as customer satisfaction and customer retention. However there is minimum search into the extended effect of customer service on firm performance. The current study seek to assess the effect of customer service practices on the banking performance in Kenya as a way of filling up the gap.

**Literature Review**

**Waiting Situation in Service Delivery and Performance of the Firm**

Strategic dimension for an organization includes becoming more competitive through customer service that is delivered on time to meet the customer expectorations (Aaker, 1995). Today most customers would prefer to be charged more and get faster service than free and slower services. Evans and Berman (1997) argue that firms with quick service have a good opportunity to to appeal to more people and benefits from constant referral from their customers, thus improving it performance. In order to achieve high market share, organizations must be able to satisfy their customers’ needs and wants in a timely and speedy manner (La Barbera and Mazursky, 1983). In support, Pruyn and Smidts (1998) opine that lengthy wait time has been shown to diminish customer satisfaction and customer evaluations for such services as restaurants, banks, and airlines (.). They furthermore, indicated that perceived wait time was related to customer satisfaction (Pruyn and Smidts 1998).

Researchers have proposed several approaches that reducing wait time in firm operations management they include enhance workstation design and service process and reducing set-up times; also firms can cross-training employees (Sheu and Babbar 1996). In addition Higgins, (2004) indicated that retailers and service operators are also increasingly adapting technology such as self checkout lines, pagers, and remote-ordering terminals to make waiting more palatable. However, studies on how customer services practices in bank affect performance are limited as such, this study thus, hypothesizes that;

\[ H_{01}: \text{Waiting situations has no significance effect on performance in the banking sector} \]
Segmentation in Business and Performance of the Firm

Market segmentation involves breaking down the heterogeneous population of customers and combining them into subgroups called segments (Lucas, 2005). Segmenting markets gives a company the opportunity to reach different markets, establish target markets, specifically address and respond better to customer needs, develop a focused marketing plan, reduce competition and increase sales and profit through customer retention (Alyssa, 2006). Segmentation creates links between marketers and customers by understanding who they are and what they want (Alysa, 2006). By connecting and communicating customers’ common needs to specific marketing actions, marketers are able to accurately respond to and meet customers’ desires. By acknowledging this linkage, a company is able to successfully reach out to different segments, answer their needs and create effective marketing plans. This knowledge and understanding of customers allows a company to determine which product serves to best accommodate their needs and gives your company a competitive advantage.

Turban et al., (2002) avers that segmentation is a scheme for categorizing industrial and business customers to guide strategic and tactical decision-making, especially in sales and marketing. Segmentation help sellers decide which customers to invest behind, which customers to focus retention strategies on, which customers to discourage or avoid, how to approach customers, and everything in between. From a marketing and sales perspective, sellers classify customer segments by priority and method of customer relationship management. This typically results in four segment priority classifications: priority, opportunistic, discourages, and avoid. In a different study, Blalock (2005) posits that priority customer segments are those that the seller wants to invest in and/or retain for a variety of reasons, including current and expected future profitability, customer loyalty, volume, performance potential, degree of innovation, and prestige. Sellers typically service priority segments directly with the seller’s personnel. However, there are instances, chiefly due to economies of scale and scope or the difficulty of building relationships, where sellers will service priority segments indirectly via channel partners or marketing alliances. A commercial bank contemplating the acquisition of a high net worth wealth management organization might use customer segmentation to understand high net worth customers and their buying processes, determine opportunities for cross-selling as well as how to customize the cross-selling approach to each segment, identify performance synergies from new value propositions, and either confirm or refute estimates of cost reduction synergies (Higgins, 2004).

\( H_02: \) Internal segmentation has no significance effect on performance in the banking sector

Multiple Service Delivery Channels and Performance of the Firm

Facing continuously changing and highly competitive business environment, banks have invested heavily in information technology (IT) to enhance operating efficiency and sustain competitive advantage (Yakhlef 2001). Banks have deployed different IT to offer multiple service channels to serve customers and satisfy their needs. Strategically utilizing IT to optimize operating performance, banks have continued some functions with traditional branch-based channel, and enhanced their functionality by introducing alternative IT-based service channels, such as automated teller machines (ATMs) and internet banking. Relieving
the pressure on branches enables banks to perform diverse financial transactions more efficiently and also attract high-end customers by providing more personalized services.

Multiple service channels may significantly lower costs of serving customers. Internet banking allows customers to perform many banking functions anytime and anywhere, while ATMs provide some services not possible by internet banking, such as withdrawing money around the clock. This suggests that a bank’s channel mix strategy may influence a customer’s decision of who to bank with and how to use alternative channels, but in turn also role the bank’s financial performance. The use of alternative service channels has changed the traditional way of understanding and undertaking banking activities (Portela and Thanassoulis 2007). For short-term operation, utilization of alternative service channels contributes to the improvement of operating efficiency. For long-term operation, efficient channel mix strategy enhances a bank’s market competition

With the ascent of internet technology, several prior studies have examined the determinants of internet banking adoption from customer perspective (Yakhlef 2001). From a cost perspective, internet banking provides greater economies of scale to process transactions, compared to branches or ATMs since internet banking is mostly a fixed-cost technology. With less staff and fewer physical branch requirements, the average transaction cost through Internet banking is much lower than at a branch (Cheng et al. 2006). Internet banking also provides a more convenient way to deliver banking services and imposes few access, location or time constraints on customers (Calisir and Gumussory 2008). These characteristics of bank service may attract customers who value convenience and rapid services. As a result, we expect that internet banking positively role a bank’s market share. However, the transactions currently processed through Internet banking are for low-end services for which banks cannot command premium prices.

Unlike customized high-end advisory services where branch staff interact with customers intimately, Internet banking is found to be ineffective in influencing bank customers’ buying decisions (Calisir and Gumussory 2008). The adoption of IT-based channels enables banks to expand their market share in a more cost efficiency way and protect their market against their competitors that offer the same IT channel option (Kauffman and Kumar 2008). Continued performance of branch network seems to be consistent with banks’ beliefs that branch will continue to be an effective channel for generating revenues despite the costs and the development of alternative IT-based channels (Hirtle 2007).

The reason behind the belief is that bank managers commonly believe that utilizing IT provides an opportunity to move non-value-added transactions to IT-based channels, leaving branches with more time to devote to value-added activities (Calisir and Gumussory 2008). In addition, customers’ adoption of Internet banking is found to be associated with increased usage of branch services, suggesting that investments in branches and Internet banking are complements (Xue et al. 2009). We expect that the lower costs and higher convenience of IT-based channels create resource slack for customers and increases their demand for banking services.

\[ H_{03}: \text{Multiple service delivery channels has effect no significance on performance in the banking sector} \]
Communication in Service Delivery and Performance of the Firm

Van Staden et al., (2002) define communication as a two-way process whereby information (the message) is sent from one person (the sender) through a channel to another person (the receiver) who in turn reacts by providing feedback. According to Rouse and Rouse (2002), effective communication means that the information is received accurately in terms of content and meaning as intended by the sender.

Communication is believed to directly affect the building of long term relationships with the stakeholders of an organization. It is therefore, necessary to acknowledge the role of communication in building relationships between the various activities in the organization and between the organization and its stakeholders (Rensburg & Cant, 2003). Schultz et al. (1995) are of the opinion that it is the rapport, the empathy, the dialogue, the relationship and the communication that the marketer establishes with the prospect that makes the difference.

According to Kotler, (2006), communication is the means by which firms attempt to inform, persuade and remind consumers – directly or indirectly – about the products and brands that they sell. In a sense, communication represents the “voice” of the brand and is a means by which it can establish a dialogue and build relationships with consumers. Blalock (2005) posits that good communication matters because business organizations are made up of people, and as Robert Kent, former dean of Harvard Business School puts it, “In business, communication is everything”. Research spanning several decades has consistently ranked communication skills as crucial for managers. Managers spend 75 to 80 percent of their time engaged in some form of written or oral communication.

According to Alyssa (2006), the ability to communicate, and communicate well is one of the biggest factors in business success. You could be an excellent designer, but if you are unable to promote your services and communicate effectively with clients and colleagues, your potential is limited. The principal areas where communication is essential include: pitching potential clients; clients meeting; consumer service; face-to-face networking; and marketing your business.

\[ H_{04}: \text{Communication related customer services effect has no significance on performance in the banking sector} \]

METHODOLOGY

The study was explanatory in nature. The target population was 202 employees of Banks drawn from eight commercial banks operating in Kitale town. Sampling is the use of definite and defined procedure(s) in the selection of a part of a total population for the purpose of obtaining from it, the descriptions, estimates and analysis of certain properties and characteristics of the whole (Mugenda, 2002). Simple random sampling was employed in selecting customer service staff. The sample size was therefore be 61. Structured questionnaires were used for data collection which was consistent with the objectives of the study since all the items had more than 0.07 Cronbach’s reliability coefficient. Quantitative
data collected was analyzed using descriptive statistics (frequencies, percentages, means and standard deviation) and inferential statistics such as Pearson product moment correlation to establish the linear relationship between independent variables and dependent variable. Multiple regression model employed to determine the effect of customer services practices and bank performance. All the results were considered significant at \( \alpha=0.05 \). Multiple regression model was as given below

\[
y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon
\]

Where:
\( Y \) = Bank performance
\( \alpha \) = Alpha
\( \beta_1 \ldots \beta_4 \) = the slope representing degree of change in dependent variable as independent variables changes.
Where:
\( X \) = Independent variables;
\( X_1 \) = waiting situations
\( X_2 \) = multiple service delivery channels
\( X_3 \) = internal segmentation
\( X_4 \) = communication related customer services
\( \epsilon \) = Error term

Results and Discussion

This section presents results of this study based on the formulated objectives and hypotheses as presented in previous section. Findings in table 1 indicated that bank has if not better good waiting situation practices. There was also adequate internal segmentation (mean=4.2243). The bank has multiple service delivery services (mean=3.54). Findings further reveals that there was customer service related communities’ practices (mean = 3.57. Bank performance was shown to be average (mean = 3.83).

Pearson Correlations results in table 1 showed that customer service related communication practices was most highly positively and significantly correlated to bank performance \( r=0.643, \rho<0.05 \). Internal segmentation was the second component to be positively related with bank performance \( r = 0. 682, \rho<0.05 \). Multiple service delivery services was also positively and significantly associated with bank performance \( r = 0.679, \rho<0.05 \). Although waiting situation practices was highly and positively correlated with bank performance \( r = 0.643, \rho<0.05 \). It was the least components to be related with bank performance.
Table 1  Correlation Statistics

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Performance</th>
<th>Waiting situation practices</th>
<th>Internal Segmentation</th>
<th>Multiple delivery services</th>
<th>Customer Communication Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>performance</td>
<td>3.84</td>
<td>0.66</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waiting situation practices</td>
<td>3.23</td>
<td>0.73</td>
<td>.643**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal Segmentation</td>
<td>4.22</td>
<td>0.41</td>
<td>.682**</td>
<td>.624**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multiple service delivery</td>
<td>3.50</td>
<td>0.64</td>
<td>.679**</td>
<td>.614**</td>
<td>.655**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Customer Communication Practices</td>
<td>3.57</td>
<td>0.64</td>
<td>.650**</td>
<td>.621**</td>
<td>.566**</td>
<td>.603**</td>
<td>1</td>
</tr>
</tbody>
</table>

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

Hypothesis Testing

The regression results from table 1 shows that waiting situation practices, internal segmentation, multiple service delivery services and customer service related communication practices explain 62.2% variations of bank performance. Durbin–Watson statistic is substantially less than 2, there is evidence of positive serial correlation, which does not affect the consistency of the estimated regression coefficients. The F-value of 139.914, p<0.05 indicate that the overall regression model is significant, hence, the joint contribution of the independent variables was significant in predicting the bank performance. Values of tolerance were greater than 0.2 rule and those of VIF were less than 4. This shows lack of multicollinearity among independent variables ((Neter et al., 1996; Ott and Longnecker, 2001).

Hypothesis H01 hypothesized that waiting situations has no significance effect on performance in the banking sector. Findings in table 2 supported the rejection of the hypothesis, inferring that waiting situation practices had positive and significant effect on bank performance ($\beta_1=0.169$, p<0.05). The study findings are that Lengthy wait time has shown to have diminished customer satisfaction particularly in banks, restaurants and airlines as revealed by (Pruyin and Smidts, 1998). A number of articles published are in agreement with findings on that strategies to reduce time waiting improves firm performance (Szuchman and Tesoriero 2004; Bhatia 2002).

Hypothesis H02 stipulates that internal segmentation has no significance effect on performance in the banking sector. However it was rejected, and concluded that internal segmentation has positive significant effect on bank performance ($\beta_2=0.279$, p<0.05). This showed that the more the internal segmentation in the bank the higher the performance. The study finding is in agreement with Lucas (2005) that the process of market segmentation involves breaking the heterogeneous population into groups in terms of their similarities in wants and needs, this way marketers are able to focus their marketing actions specifically on these smaller homogenous segments therefore a company is able to successfully reach out to different segments, answer their needs and create effective marketing plans thus creating links between marketers and customers by understanding who they are and what they want (Alysa, 2006). Arguments by Turban et al., (2002) affirms that segmentation is a scheme for categorizing industrial and business customers to guide strategic and tactical decision-making.
particularly in sales and marketing. Sellers will be able to decide which customers to invest behind, how to deal with customers, particularly on how to approach them in order to achieve desired goal.

Hypothesis HO3, postulate that *multiple service delivery channels has effect no significance on performance in the banking sector*. Hypothesis was void, thus suggesting that multiple service delivery services has significant positive effect on bank performance. Thus, failure by the bank to ensure multiple service delivery services in its operations will role negatively on bank performance ($\beta_3 = 0.249, \rho < 0.05$). This findings is in agreement with (Yakhlef 2001) that as a result of the ever changing and highly competitive business environment, banks have deployed different IT to offer multiple service channels to serve customers and satisfy their needs and providing more personalized services. Multiple service channels may significantly lower costs of serving customers. Internet banking allows customers to perform many banking functions anytime and anywhere, for instance ATMs provide an array of services, the best thing about it is its 24 hour service, customers can withdraw cash up to a certain limit during any time of the day or night. Also ATMs are located at convenient places such as the airport and not necessarily at the bank’s premises therefore creating mobility in banking services for withdrawal, affirming that multiple service channels has a positive significant effect on bank performance.

HO4 state that $H_{O4}$: *Communication related customer services effect has no significance on performance in the banking sector*. However, findings in table 1 provided enough evidence to reject hypothesis. Hence, customer service related communication practices has a significant positive effect on bank performance ($\beta_4 = 0.236, \rho < 0.05$). Hence, increasing customer service related communication practices in the bank will stimulate performance. Further findings on whether communication affects performance of the banking sector revealed that communication does affect the performance of the banking sector as shown by the coefficient estimates of ($\beta_4 = 0.236, \rho < 0.05$). The study findings are in agreement with (Rensburg & Cant, 2003) that communication is believed to directly affect the building of long term relationships with the stakeholders of an organization.

### Table 4.7 Multiple Regression Results

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(Constant)</td>
<td>0.844</td>
<td>0.135</td>
<td></td>
</tr>
<tr>
<td>Waiting situation practices</td>
<td>0.153</td>
<td>0.044</td>
<td>0.169</td>
</tr>
<tr>
<td>Internal segmentation</td>
<td>0.233</td>
<td>0.04</td>
<td>0.279</td>
</tr>
<tr>
<td>Multiple service communication practices</td>
<td>0.256</td>
<td>0.05</td>
<td>0.249</td>
</tr>
<tr>
<td></td>
<td>0.243</td>
<td>0.048</td>
<td>0.236</td>
</tr>
<tr>
<td>R Square</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Durbin-Watson</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a Dependent Variable: Bank performance
CONCLUSION AND RECOMMENDATIONS

This study finding provides direct affirmation that waiting situation practices has a fundamental effect on performance of the bank sector. From the study findings there is prove that waiting situation practices allows customers to save on time and avoid lengthy procedures which creates dissatisfaction. When this is achieved, there is a high level of performance in the bank sector because customers are satisfied. The study also provides preliminary evidence on segmentation that seem to play a pivotal role in performance of the bank sector. Specifically, where there is market segmentation, products are tailored to meet the requirements of a particular market thus enhancing satisfaction and also there is increased effectiveness in marketing campaign to attract that segment. The overall outcome is a positive significant performance in the bank sector.

Multiple service delivery roles positively on performance of the bank sector. For instance, banks have rapidly expanded the ATM network considering the facts ATMs have become the most acceptable delivery channels. Internet banking is also gaining acceptance among clients since it enhances service delivery which in turn leads to performance of the bank sector.

Finally, communication has tremendously increased performance in the banking sector. Efficient communication has enabled banks to be aware of customer’s needs for new services and plan to make them available. Communication has also enabled immediate replies to customer queries and automatic and prompt carrying out of standing instructions on due date and generation of reports thus a positive significant performance in the bank sector is realized From the study findings it was found out that waiting situation practices have a high return on customer satisfaction and are able to attract a large pool of potential customers. The result suggests that there is positive role on bank performance when there is waiting situation practices, thus the study advocates for better and efficient ways of saving on time in order to increase customer satisfaction.

The study provides strong support for the fact that segmentation roles on banks performance very highly, thus the managers should increase market and customer segmentation because this will have a significant positive effect on bank performance. The number of service delivery channels has a significant effect on bank performance. Therefore, the bank sector should adopt advanced technological methods such as self-inquiry facility for inquiries and view of transactions in the account. Also remote banking should be adopted to enable customers to make inquiries regarding their account on-line, without having to move. This will in turn lead to tremendous performance in the bank sector.

In conclusion communication is increased by policies that provide times and places for social interaction which encourages utilization of such opportunities by a wide array of groups and individuals within the bank sector to exchange ideas on how to effectively enhance bank performance. The limitation of this study is banks in Kitale town. Banks from other towns in Kenya were not included in the sample. Thus, for future research, the researchers should try to include banks from other towns and extend the research by investigating the role of credit management in customer service delivery in the bank sector. Further the study should also put into consideration monitory policies by the central bank on the relationship between customer service delivery and performance of the banking sector.
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