



**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**SERVICE QUALITY AND CUSTOMER SATISFACTION  
(THE CASE OF COOPRATIVE BANK OF OROMIA)**

**BY  
DAWIT DEGEFA**

**MAY, 2017  
ADDIS ABABA**

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**BY  
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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY COLLEGE  
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ADDIS ABABA**

**ST.MARY’S UNIVERSITY COLLEGE  
SCHOOL OF GRADUATE STUDIES  
DEPARTMENT OF GENERAL, MBA**

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**DAWIT DEGEFA**

**APPROVED BY BOARD OF EXAMINERS**

\_\_\_\_\_  
**Dean, Graduate studies**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**Advisor**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**External Examiner**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**Internal examiner**

\_\_\_\_\_  
**Signature**

## ***DECLARATION***

I the undersigned, declares that this thesis is my original work, prepared under the guidance of Asst. Professor Simon Tarekegn. All sources of material used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any degree.

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Name

**St. Mary's University, Addis Ababa**

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Signature

**May, 2017**

## ***ENDORSEMENT***

This thesis has been submitted to St. Mary's University, School of Graduate studies for examination with my approval as a university advisor.

Simon Tarekegn (Ass. professor)

\_\_\_\_\_

Advisor

Signature

**St. Mary's University, Addis Ababa**

**May, 2017**

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## ***ACRONYMS***

CBO -Cooperative Bank of Oromia

ServQual – Service Quality

SQ - Service quality

CS- customer satisfaction

P-perception

E- Expectation

P - Perception of individual

E - Service quality expectation of individual

RES -Responsiveness

T -Tangibility

A - Assurance

R - Reliability

E - Empathy

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## **ABSTRACT**

*It is obvious that customers are important stakeholders in organizations and their satisfaction is a priority to management. Customer satisfaction has been a subject of great interest to organizations and researchers alike. In recent years, organizations are obliged to render more services in addition to their offers. The quality of service has become an aspect of customer satisfaction. It has been proven by some researchers that service quality is related to customer satisfaction. Others used service quality dimensions to evaluate service quality. Considering this, the study was intended to assess the level of service quality and customer satisfaction of CBO. For this purpose, the study was used descriptive approach focusing on both primary and secondary data. Besides, Questionnaires were distributed to 97 customers and 33 employees of the bank in order to collect primary data. The respondents were selected by using simple random sampling technique. The SERVQUAL instrument developed by Parasuraman (1985) has been applied in designing the questionnaire by using five dimensions of service quality: tangibility, reliability, responsiveness, assurance, and empathy. The questionnaire aimed to determine the level of customers' expectation and perception towards the service quality of the bank. Correlation analysis is carried out to examine the impact of the five service quality dimensions over customer satisfaction. The results revealed that the reliability and empathy dimensions raised the highest level of expectation, whereas the reliability, empathy, and responsiveness dimensions gained the highest level of perception. The findings showed that the dimensions of service quality such as tangible, reliability, responsiveness, assurance, and empathy are positively correlated to customer satisfaction.*

**Keywords:** *customer satisfaction, SERVQUAL, expectation and perception of customers.*

# CHAPTER-ONE

## 1. INTRODUCTION

This introduction part of the paper includes the following sections: background of the study, background of the organization, statements of the problem, research questions, objectives of the study, scope of the study and significance of the study.

### 1.1. Background

The current business environment is becoming competitive and challenging than before. With multidimensional challenges and demand of globalization, organizations are forced to re-engineer their products and systems to improve their service quality and remain competitive. (Yasin et al, 2004; Rodie and Martin, 2001).

Customer service is considered as an integral part of any facet of industry and it defines the future sustainability of any organization. The rapid advances in technology based systems related to internet are leading to fundamental ways in how different organizations interact. This applies same for relation of an organization with its customer. In different service industries the relationship between customer satisfaction and service attributes have been difficult to identify because services nature is intangible (Hong, Goo et al., 2004; Nguyen and Leblanc, 2002).

Due to intangible nature of services it is difficult for the firms to analyse how the customers perceive and evaluate the desired outcome of the service quality (Zeithaml, 1981). As customer evaluates their level of satisfaction by experimenting the service quality, satisfaction with services is related to conformation or disconfirmation of expectations (Smith and Houston 1982). The issue of highest priority today involves understanding the impact of service quality on profit and other financial outcomes of the organization ( Zeithaml et al., 1996).

As Organizations are increasingly becoming customer focused and driven by customer demands. It is becoming equally challenging to satisfy and retain customer loyalty. Research by Oliver (2009) suggests that both service quality and customer satisfaction are two distinct but related

constructs. It is particularly true for the services firms where increased level of customer satisfaction results in profit maximization.

Therefore experts say that customer satisfaction should be the fundamental principle of all the service firms as it is the key indicator of firm's performance. As said by Sakthivel et al., (2005) Customer loyalty and satisfaction is proved to be the major determinant for long term survival and financial performance of the company (Jones and Sasser,1995) also customers are considered as final judges to judge the quality level of product and services offered.

So it can be said that the improvements in quality standards bring positive outcomes for the firm. When service firms well understand this fact that continuous improvements in service quality and offerings effects the satisfaction level of customers, they can better allocate resources to attain quality standards in order to meet their client's expectations.

In service industry, the concept of quality holds the main position. The relationship with the customer is based on the promise that customer satisfaction is achieved through providing standard quality of service. The high quality demands on customers end is becoming prominent due to the growing fact that high level of service quality leads to sustainable competitive advantage in the competitive business environment (Sureshchandar et al., 2002) It is not surprising to know that quality level of services is the leading phenomena to plan strategies in the services firms (Khamalah and Lingaraj 2007).\

## **1.2. Background of the Organization**

CBO is established to provide all banking service and products. It was registered on 29 October 2004 in accordance with Article 304 of the commercial code of Ethiopia and was licensed by National Bank of Ethiopia as per proclamation No. 84/1994 that provides for licensing and supervision of banking businesses. The bank commenced operation on 8th March 2005. The Cooperative Bank of Oromia has developed following vision, mission, values and objectives as its quality principles:

**Vision:** The bank aspires to be the competent and reputable Bank in Africa that can play a paramount role in the socio-economic transformation of Oromia.

**Mission:** The mission of CBO is to provide full-fledged and customer responsive Banking services for cooperative societies in Oromia, other entities and individuals with special emphasis

to agricultural and agro-based business financing. We use competent and disciplined employees. We believe integrity is the base of public confidence.

**Objectives:** The main objective of the bank is to stimulate the economic and social development of Oromia through mobilizing financial resources from cooperates, private business and public institutions and financing them. Specifically, CBO has the following objectives: Mobilize deposit and promote the culture of saving that encourage the supply of funds, Create access to loans and advances and other banking services for broad portions of population, and of course, The commercial objective of the bank is to maximize shareholders value.

(Source Cooperative bank of oromia website)

### **1.3 Statement of the problem**

Customer satisfaction has been studied in different directions, from measurement to its relationships with other business aspects. Some researchers have provided possible means of measuring customer satisfaction (Levy, 2009; NBRI, 2009). Meanwhile other authors like Wilson et al. (2008) demonstrated some determinants of customer satisfaction to be product and service quality, price, personal and situational factors (Wilson et al., 2008, p. 79-80). Some researchers have looked into the relationship between total quality management and customer satisfaction. (Wen-Yi, et al., 2009, p.957-975).

Because customer satisfaction is also based upon the level of service quality provided by the service provider (Lee et al., 2000, p. 226) and service quality acts as a determinant of customer satisfaction (Wilson et al., 2008, page 79-80). Other authors have brought out theories relating customer satisfaction and service quality in their researches.

Providing excellent service quality and high customer satisfaction is the important issue and challenge facing the contemporary service industry. High customer satisfaction and loyalty have long been key concerns for operational management in service industries. Consequently customer orientation, namely, understanding customer requirements and expectations, is the first step service providers must take to enhance service quality. Service quality plays a critical role in a firm's competitive advantage. Studies investigating service quality have extensively examined service quality measurement to assist practitioners in effectively managing quality service.



Service quality remains a critical measure of organizational performance for banking institutions and will continue to be at the forefront of services marketing literature and practice. The enthusiasm is mostly kept high by the fact that a high service quality offered often leads to customer satisfaction, loyalty, and other positive behavioral outcomes such as greater willingness to recommend the service providers to others, lesser complaints, and improved customer retention.

Due to intangible nature of services it is difficult for the firms to analyse how the customers perceive and evaluate the desired outcome of the service quality (Zeithaml, 1981). As customer evaluates their level of satisfaction by experimenting the service quality, satisfaction with services is related to conformation or disconfirmation of expectations (Smith and Houston 1982). The issue of highest priority today involves understanding the impact of service quality on profit and other financial outcomes of the organization (Zeithaml et al., 1996).

To provide quality service, employee needs ongoing training in the necessary technical skills and knowledge to provide quality service. Employees also need training in interactive skills that allow them to provide courteous and responsive service. Because customer satisfaction and customer focus are so critical to competitiveness of firms, any company interested in delivering quality service must begin with a clear understanding of its customers (Valarie A. Zeithaml and Mary Jo Bitner, 2003).

The primary objective of service providers and marketers is identical that of all marketers: to develop and provide offerings that satisfy consumer needs and expectations, thereby ensuring their own economic survival. In other words, service marketers need to be able to close the customer gap between expectation and perception. To achieve this objective, service providers need to understand how customers choose and evaluate their service offerings. It is desirable for service providers to uncover what attributes customers utilized in their assessment of overall service quality and satisfaction and which attributes are more important. It is important that the banks provide customers with high quality services to survive in the highly competitive business. For this, the banks first need to understand the attributes that consumers use to judge service quality, and monitor and enhance the service performance.

Now a day in Ethiopia financial institutions would snatch a high portion a high market from the bank sector as they are aggressively mobilizing deposits from the public at large. Thus banks to

differentiate themselves from competitors merely by providing high quality service and having good relationship with customer than their competitors in more effective and efficient manner. Otherwise, any bank that fails to surpass customer expectations and meet customer satisfaction will not be able to compete with other banks. Meanwhile, banks operating in Ethiopia are consequently put in to a lot of pressures due towards increase in completion. Specially it's challenging for the newly opened private banks since they have the floor market share of the banking sector and customers are also nearly sensitive to switch to rival banks because of better services.

Therefore, the researcher forced to conduct this study in order to evaluate the service quality and customer satisfaction in the context of CBO. It gives special reference for the newly opened private banks since such banks needs to measure the difference of the customer expectation and perceived range of attitude toward the actual performance of their service quality. So that to make adjustment and get competitive advantage over competitors.

#### **1.4 Research Questions**

The study seeks to answer the following research questions:

1. What is the level of customers' satisfaction towards the five service quality dimension interims of (Reliability, Responsiveness, tangibility, Empathy and Assurance) in CBO?
2. What are the gaps between customers' expectation and perception towards service quality in CBO?
3. Are customers of the bank being satisfied (in the case of CBO)?

## **1.5 Objectives of the Study**

In line with the above problems and research questions the general and specific research objectives are the following.

### **1.5.1 General Objective**

The objective of this paper is to seek and measure customers' satisfaction towards the five SERVQUAL dimensions.

### **1.5.2 Specific Objectives**

- To assess customer's expectation and perception level towards service quality of CBO according to the five SERVQUAL dimensions: tangibility, reliability, responsiveness, assurance, and empathy.
- To analyze the gap between customers' expectation and perception towards service quality.
- To measure the service quality of the bank accordingly to SERVQUAL model.

## **1.6 Scope of the study**

The study is assessed service quality and customer satisfaction in Cooperative bank of Oromia. The study was conducted on customers and employees of CBO in headquarter which is found around Flamingo area Addis Ababa, which provides multiple services of the Bank. Furthermore, the aim of the study is to gain a better understanding of the service quality dimensions that affect CBO's customer satisfaction from their perspective.

## 1.7 Significance of the Study

- Generally, the finding and conclusions of the study may help CBO management in decision making by understanding the problems from this findings with regards to the service quality provided.
- To gain more knowledge about customer satisfaction in the banking industry in general and in CBO in particular.
- Serve as guidelines for the formulation of policies on the quality of bank's services.
- Help recognize that customers hold different types of expectations for service performance.

## 1.8 Definition of Terms

**Quality-** Quality can be defined as satisfying or exceeding customer requirements and expectations, and consequently to some extent it is the customer who eventually judges the quality of a product or service.(Shen *et al.*, 2000).

**Service Quality-** Service quality is defined as the degree of discrepancy between customers' normative expectations for service and their perceptions of service performance (Parasuraman *et al.*, 1985).

**SERVQUAL** - is an instrument for measuring service quality, in terms of the discrepancy between customers' expectation regarding service offered and the perception of the service received; Respondents are required to answer questions about both their expectation and their perception. (Parasuraman, Valarie zeithaml and Leonard I.Berry, 1988)

**Customer expectation** - means uncontrollable factors including past experience, personal needs, word of mouth, and external communication about bank service.

**Customer perception** - means customer's feelings of pleasure /displeasure or the reaction of the customers in relation to the performance of the bank staff in satisfying / dissatisfying the services.

**Service delivery-** refers to how well the service is provided to customers. It includes speed, accuracy, and care attending the delivery process.

**Reliability-** delivering on services dependably and accurately.

**Assurance** - Knowledge and courtesy of employees and their ability to inspire trust and confidence.

**Responsiveness**- Being willingness to help customers and provide prompt service.

**Empathy**- treating customers as individualized.

**Tangibles**- representing the service physically.

## **1.9 Organizations of the study**

The study will be organized and presented into five chapters. The first chapter gives a general idea on the background, objectives of the study, research questions, statement of the problem and significance of the study. The second chapter deals about review of related literature to support the study by discussing the relevant literature from different materials. The third chapter presents the methodology of the study, Research Design, Research Approach, Research Method, Source of data, Sampling design, Method of Data Analysis, Sampling Technique, Population and Sampling and Ethical consideration. The fourth chapter deals about Data analysis and presentation. Finally, the fifth chapter covers the conclusion and recommendation part of the study.

# CHAPTER - TWO

## 2. Literature review

### 2.1 Theoretical literature reviews

#### 2.1.1 Quality:

Quality has been defined from diverse perspectives. Quality was primarily seen as a defensive mechanism but it is seen as a competitive weapon for emergence of new markets as well as growing market share (Davis *et al.*, 2003). Quality can be defined as satisfying or exceeding customer requirements and expectations, and consequently to some extent it is the customer who eventually judges the quality of a product (Shen *et al.*, 2000).

An extensive range of literature over the last 25 years has examined the concept of service and acknowledged the intangibility of services as one of the problems allied with measurement (Joseph *et al.*, 2005). Furthermore, in the service sector, where production, delivery and consumption can occur simultaneously, the concept of quality refers to the matching between what customers expect and what they experience. Customers evaluate service quality by comparing what they want or expect to what they actually get or perceive they are getting (Berry *et al.*, 1988). When it comes to the service sector in banks, it turned out to be that they propose comparable kinds of services worldwide (Lim and Tang 2000), rapidly corresponding their competitors' innovations. Nevertheless, customers can perceive differences in the quality of service. Banks have realized the significance of concentrating on quality of services as an approach to increase customer satisfaction and loyalty, and to develop their core competence and business performance (Kunst and Lemmink, 2000)

#### 2.1.2 Service Quality:

Nowadays, with the increased competition, service quality has become a popular area of academic research and has been acknowledged as an observant competitive advantage and supporting satisfying relationships with customers (Zeithmal, 2000).

Service quality is concepts that has aroused substantial interest and argue in research. There are difficulties defining and measuring it with no overall consensus emerging on either (Wisniewski, 2001). Service quality has been defined as the overall assessment of a service by the customers (Eshghi *et al.*, 2008), while other studies defined it as the extent to which a service meets

customer's needs or expectations. Service is assumed to be quality when it consistently conforms to customer expectations (Asubonteng *et al.*, 1996; Wisniewski and Donnelly, 1996). Parasuraman *et al.* (1985) argues that service quality is the measure of service delivered as against expected service performance.

### **2.1.3 Meaning of Customer Service**

Customer service is defined as the ability of knowledgeable, capable and enthusiastic employees to deliver products/service to their internal and external customers in a manner that satisfies identified and unidentified needs and ultimately results in positive word of mouth publicity and return business. According to Jamier L. Scott (2000) customer service is a series of activities designed to enhance the level of customer satisfaction that is feeling that service has met a customer's expectations. Many companies specialize in providing only service. For instance, of these types of companies are the Banking sector.

Customer service is the set of activities an organization uses to win and retain customer satisfaction. It can be provided before, during or after the sale of the services or exist on its own. Elements of customer service are: Organization, Customer care, Communication, Front-line people and Leadership.

**Organization:** to ensure the same level of quality for all customers the organization must: Identify each market segment, write down the requirements, communicate the requirements, organize processes and organize physical spaces.

**Customer Care:** an organization should revolve around the customer. Customers are the key to business. A customer should be valued and treated like a friend. They must: meet the customer's expectations, Get the customer's point of view, Deliver what is promised, Make the customer feel valued, Respond to all complaints should be immediate and should be more than the customer's expectations, Remain aware and evaluate customer satisfaction regularly, Provide a clean and comfortable customer reception area, Give customers assistance with their concerns, Referring an appropriate staff member for problem solving action when necessary, Continually search for customer related improvements.

**Communication:** an organization's communication to its customers must be consistent with its level of service quality. Customer relationships are based on communication. An organization must listen to its customer and establish a level of trust. Hence organizations must:

- Optimize the tradeoff between time and personal attention
- Minimize the number of contact points
- Provide pleasant knowledgeable and enthusiastic employees
- Write documents in custom friendly

**Front line people:** front line people with the customers (the most valuable asset of any company every day only the best employees is worthy of a company's customers.

Therefore customers should be referred to employees who have not been properly trained to handle their complaints in front the employees. The most important aspect is personality. Front line employees must have a positive attitude. They need to care smile possess a pleasant voice, and thank the customer often for their business.

**Leadership:** no quality improvement can succeed without management's involvement and commitment managers can best show their commitment to service quality for example: the top management must: Lead by example, listen to the front line people, and strive for continuous process improvement. Every business is unique and if customer satisfaction measurements are to be meaningful, expectations should be phrased in the language of customers for each distinct market segment. After measuring satisfaction levels emphasis can then be placed on improving performance in areas important to the customer but where the organization may be lacking in comparison to the quality delivered by competitors.

### **2.1.4 Customer satisfaction:**

Literature establishes that customer satisfaction is a key to long-term business success (Zeithami *et al.*, 1996). To protect/gain market shares, organizations need to outperform competitors by offering high quality product or service to ensure satisfaction of customers (Tsoukatos and Rand, 2006). Banks need to understand customers' service requirements and how it impact on service delivery and customers' attitudes (Gerrard and Cunningham, 2001), for a small increase of customer satisfaction can to customer loyalty and retention (Bowen and Chen, 2001). With better understanding of customers' perceptions, companies can determine the actions required to meet the customers' needs. They can identify their own strengths and weaknesses, where they stand in comparison to their competitors, chart out paths for future progress and improvement (Magesh, 2010). In the banking industry, a key element of customer satisfaction is the nature of the relationship between the customer and the provider of the products and services. Thus, both



product and service quality are commonly noted as a critical prerequisite for satisfying and retaining valued customers (Muslim and Isa, 2005). It is indeed true that delivery of high-service quality to customers offers firms an opportunity to differentiate themselves in competitive markets (Karatepe *et al.*, 2005).

Service quality is defined as customer perception of how does a service meets or exceeds their expectations (Czepiel, 1990). Several practitioners define service quality as the difference between customer's expectations for the service encounter and the perceptions of the service received (Munusamy *et al.*, 2010). Customer expectation and perception are the two main ingredients in service quality. Customers judge quality as „low“ if performance (perception) does not meet up their expectation and quality as „high“ when performance exceeds expectations according to Oliver (1980).

Service quality consists of five dimensions: tangibles (appearance of physical facilities, equipment, personnel and written materials), reliability (ability to perform the promised service dependably and accurately), responsiveness (willingness to help customers and provide prompt service), assurance (knowledge and courtesy of employees and their ability to inspire trust and confidence), and empathy (caring and individual attention the firm provides its customers). Reliability is considered the vital core of service quality. Other dimensions will matter to customers only if a service is reliable, because those dimensions cannot compensate for unreliable service delivery (Berry *et al.*, 1994).

Perceived quality has been defined as a form of attitude, related but not equal to satisfaction, and fallout from a consumption of expectations with perceptions of performance. Consequently, having an improved understanding of consumers' attitudes will facilitate knowing how they perceive service quality in banking operations (Parasuraman *et al.*, 1988).

In the changing banking scenario of 21st century, the banks had to have a vital identity to provide excellent services. Banks nowadays have to be of world-class standard, committed to excellence in customers' satisfaction, and to play a major role in the growing and diversifying financial sector (Balachandran, 2005). There has been a remarkable change in the way of banking in the last few years. Customers have also accurately demanded globally quality services from banks. With various choices available, customers are not willing to put up with anything

less than the best. Banks have recognized the need to meet customer's aspirations. Consequently service quality is a critical motivating force to drive the bank up in the high technology ladder.

The soundness of banking sector is of a dominant importance and as efficiency in the utilization of the savings of the depositors and the banking sector resources is essential to improve the growth rate of the existent sectors of the economy (Central Bank, 2003). The purpose of banking operations supposed to be to progress the quality of life for the overall society not just the maximization of shareholders' wealth.

### **2.1.5 Importance of Customer Satisfaction**

In fact, customer satisfaction has for many years been supposed as key in determining why customers switch or retain a bank. Commercial banks need to know how to retain their customers, even though they become to be satisfied. Reichheld (1996) recommends that discontented customers may decide not to switch to other banks, because they do not expect to obtain of good quality service in other banks. In the same way, satisfied customers may find for other banks because they think they might obtain of good quality service in other banks. However, maintaining customers is also reliant on several other factors. These include a broader variety of product choices, higher convenience, best prices, and improved income (Storbacka et al., 1994).

Ioanna (2002) further suggested that product differentiation is impracticable in a competitive market like the banking industry. Banks all over the place are providing the similar products. For instance, there is usually only smallest difference in interest rates charged or the variety of products accessible to customers. Bank prices are fixed and determined by the market force. Therefore, bank management tends to differentiate their firm from rivals by providing better quality services to their customers. Service quality is a very important factor affecting customers' satisfaction intensity in the banking industry. In banking, quality is a multi-variable concept, which contains differing kinds of convenience, reliability, services portfolio, and critically, the staff delivering the service.

Muffato and Panizzolo (1995) argued that customer satisfaction is considered to be one of the principal essential competitive factors for the longer term, and can be the most effective indicator of a firm's profitability. They further propose that customer satisfaction can drive companies to

boost their reputation and image, to keep down customer turnover, and to enhance attention to customer needs. Such actions can facilitate companies produce barriers to switching, and improve business relationships with their customers.

Although several businesses have an attention in maximizing customer satisfaction, it is not as a result of customer satisfaction is that the final objective in itself. The underlying reason is that satisfied customers yield bigger profits. Banks with more satisfied customers are more profitable and more successful. According to Hansemark and Albinsson (2004) customer satisfaction can result in a range of benefits. As an example, satisfied customers tend to be less price-sensitive, willing to buy more products, and fewer influenced by rivals.

Kotler (1991) identified that a satisfied customer: buys repetitively, tells positively to relatives concerning the company, pays less interest to rival brands and advertising, and purchase other products that the company adds to its line. Customer satisfaction is a main result of marketing action (East, 1997) whereby it serves as a tie between the different phases of consumer buying behavior. For example, if customers are satisfied with a particular service offering after its utilization, subsequently they are expected to engage in repeat purchase and attempt line extensions. Customer satisfaction is generally accepted as a key impact in the development of customers' future purchase plans (Taylor and Baker, 1994). Satisfied customers (Richens, 1983) are also expected to tell others regarding their good experiences and thus involves in positive word of mouth advertising.

Customer satisfaction affects loyalty, how much rely on the level of customer satisfaction. if customer highly satisfied, their level of loyalty also increase. A customer who is “very satisfied” is six times more expected to buy repetitively a product than a customer who is “satisfied” (Matzler & Hinterhuber, 1998).

### **2.1.6 Service quality Model:**

Among the models for measuring service quality, the most acknowledged and applied model in diversity of industries is the SERVQUAL (service quality) model developed by Parasuraman et al. The SERVQUAL model of Parasuraman et al. (1988) proposed a five dimensional construct of perceived service quality tangibles, reliability, responsiveness, assurance and empathy as the instruments for measuring service quality (Parasuraman et al., 1988; Zeithamlet et al., 1990).

## **Reliability**

Reliability depends on handling customers' services problems; performing services right the first time; provide services at the promised time and maintaining error-free record. Furthermore, they stated reliability as the most important factor in conventional service (Parasuraman et al., 1988). Reliability also consists of accurate order fulfillment; accurate record; accurate quote; accurate in billing; accurate calculation of commissions; keep services promise. He also mentioned that reliability is the most important factor in banking services (Yang *et al.*, 2004).

## **Responsiveness**

Responsiveness defined as the willingness or readiness of employees to provide service. It involves timeliness of services (Parasuraman *et al.*, 1985). It is also involves understanding needs and wants of the customers, convenient operating hours, individual attention given by the staff, attention to problems and customers' safety in their transaction (Kumar *et al.*, 2009).

## **Empathy**

Parasuraman et al. (1985) defined empathy as the caring and individual attention the firm provides its customers. It involves giving customers individual attention and employees who understand the needs of their customers and convenience business hours. Ananth et al. (2011) referred to empathy in their study on private sector banks as giving individual attention; convenient operating hours; giving personal attention; best interest in heart and understand customer's specific needs.

## **Assurance**

Parasuraman et al. (1985) defined assurance as knowledge and courtesy of employees and their ability to inspire trust and confidence. According to Sadek et al. (2010), in British banks assurance means the polite and friendly staff, provision of financial advice, interior comfort, eases of access to account information and knowledgeable and experienced management team.

## **Tangibility**

Parasuraman et al. (1985) defined tangibility as the appearance of physical facilities, equipment, personnel, and written materials. Ananth et al. (2011) referred to tangibility in their study of private sector banks as modern looking equipment, physical facility, employees are well dressed and materials are visually appealing.

### **2.1.7 Customer satisfaction and service quality**

Since customer satisfaction has been considered to be based on the customer's experience on a particular service encounter, (Cronin & Taylor, 1992) it is in line with the fact that service quality is a determinant of customer satisfaction, because service quality comes from outcome of the services from service providers in organizations.

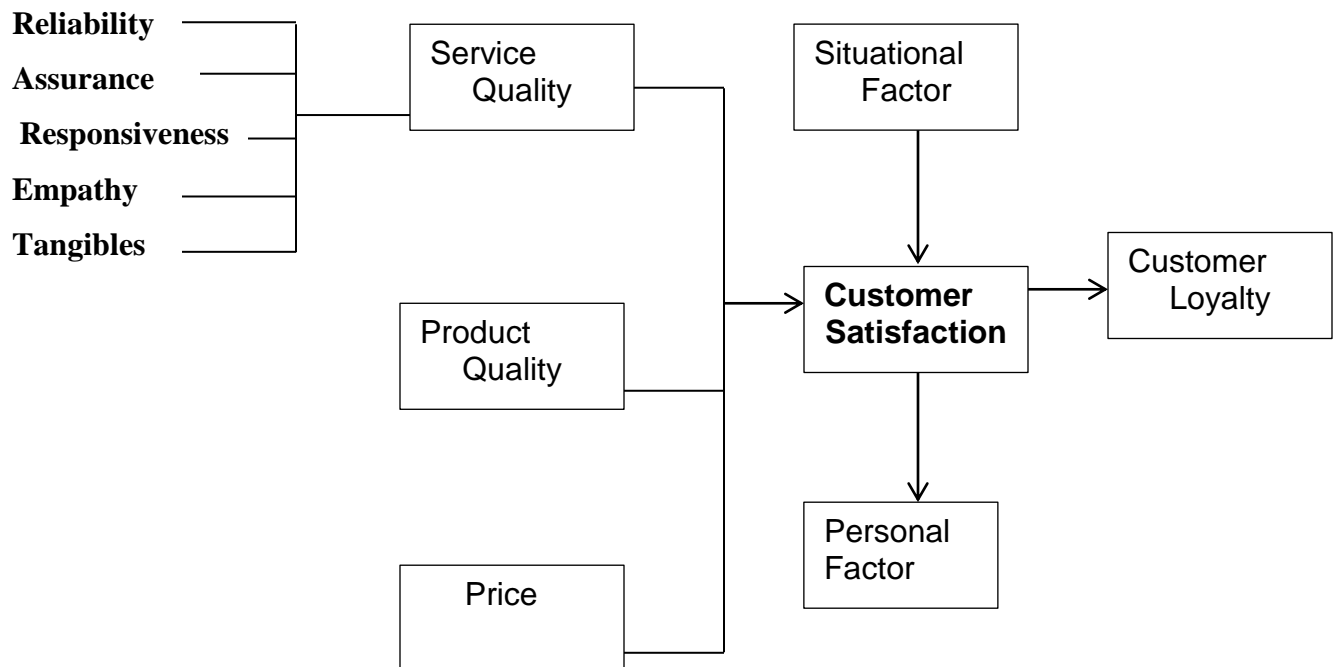
Another author stated in his theory that "definitions of consumer satisfaction relate to a specific transaction (the difference between predicted service and perceived service) in contrast with 'attitudes', which are more enduring and less situational-oriented,"

(Lewis, 1993, p. 4-12) This is in line with the idea of Zeithaml et al (2006, p. 106-107).

Regarding the relationship between customer satisfaction and service quality, Oliver (1993) first suggested that service quality would be antecedent to customer satisfaction regardless of whether these constructs were cumulative or transaction-specific. Some researchers have found empirical supports for the view of the point mentioned above (Anderson & Sullivan, 1993; Fornell et al 1996; Spreng & Macky 1996); where customer satisfaction came as a result of service quality.

In relating customer satisfaction and service quality, researchers have been more precise about the meaning and measurements of satisfaction and service quality. Satisfaction and service quality have certain things in common, but satisfaction generally is a broader concept, whereas service quality focuses specifically on dimensions of service. (Wilson et al., 2008, p. 78). Although it is stated that other factors such as price and product quality can affect customer satisfaction, perceived service quality is a component of customer satisfaction (Zeithaml et al. 2006, p. 106-107). This theory complies with the idea of Wilson et al. (2008) and has been confirmed by the definition of customer satisfaction presented by other researchers.

**Figure 2.1: Customer perceptions of quality and customer satisfaction**



*Source (Wilson et al., 2008, p. 79)*

The above figure shows the relationship between customer satisfaction and service quality. The author presented a situation that service quality is a focused evaluation that reflects the customer's perception of reliability, assurance, responsiveness, empathy and tangibility while satisfaction is more inclusive and it is influenced by perceptions of service quality, product quality and price, also situational factors and personal factors. (Wilson, 2008, p. 78)

It has been proven from past researches on service quality and customer satisfaction that Customer satisfaction and service quality are related from their definitions to their relationships with other aspects in business. Some authors have agreed to the fact that service quality determines customer satisfaction. Parasuraman et al., (1985) in their study, proposed that when perceived service quality is high, then it will lead to increase in customer satisfaction. Some other authors did comprehend with the idea brought up by Parasuraman (1995) and they acknowledged that "Customer satisfaction is based upon the level of service quality that is

provided by the service providers” (Saravana & Rao, 2007, p. 436, Lee et al., 2000, p. 226). Looking into (figure 1), relating it to these authors’ views, it is evident that definition of customer satisfaction involves predicted and perceived service; since service quality acted as one of the factors that influence satisfaction. More evidence of this relationship has been proven by past researches. As a result of the definition of customer satisfaction presented by Lewis, (1993, p. 4-12), Sivadas & Baker-Prewitt (2000, p. 73-82) used a national random telephone survey of 542 shoppers to examine the relationship between service quality, customer satisfaction, and store loyalty within the retail department store context. One of the results was that service quality influences relative attitude and satisfaction with department stores. They found out that there is a relationship between customer satisfaction and service quality.

In line with the findings of Sivadas & Baker-Prewitt (2000, p. 73-82), Su et al., (2002, p. 372) in their study of customer satisfaction and service quality, found out that; these two variables are related, confirming the definitions of both variables which have always been linked. They also dictated that service quality is more abstract because it may be affected by perceptions of value or by the experiences of others that may not be so good, than customer satisfaction which reflects the customer’s feelings about many encounters and experiences with service firm. (Su et al., 2002, p.372).

In addition to what the other researchers have found out from customer satisfaction and service quality, some other authors Wang & Hing-Po (2002), went into details to bring in customer value in the study of the relationship between customer satisfaction and service quality. Their study used SERVQUAL model in measuring service quality in China’s mobile phone market, but with modification on the basis of focus group discussions and expert opinions to reflect the specific industry attributes and the special culture of China. Emphasis was then paid to the study of the dynamic relationships among service quality, customer value, customer satisfaction and their influences on future behaviors after the key drivers of customer value and customer satisfaction were identified. All of them were based on the development of structural equation models by using PLS-GRAPH Package. (Wang & Hing-Po, 2002 p. 50-60) This study blended the study of customer satisfaction and service quality with customer value which added more weight to the linkage between customer satisfaction and service quality because value is what customers look in an offer.

Past studies on the relationship between customer satisfaction and service quality which included SERVQUAL dimension have been published since from 2003 to 2010, the research on this topic dropped from 2004 to 2006 and was stable, between 2008 and 2009, there was no study on this field of study that treated the relationship between customer satisfaction and service quality with SERVQUAL dimension; research on this topic increased rapidly in 2010 (Appendix 1) With regards to the above statistics; Kuo ( 2003) conducted a research on service quality of virtual community websites with the purpose of constructing an instrument to evaluate service quality of virtual community websites and to have a further discussion of the relationship between service quality dimensions and overall service quality, customer satisfaction and loyalty. The researcher used Factor analysis, t-test, and Pearson correlation analysis to analyze the data collected from college students of three major universities in Taiwan. One of the results was that” on-line quality and information safety is positively related to the overall service quality, customer satisfaction, and loyalty, but the service quality level of this dimension was the poorest.” (Kuo, 2003, 461-473).

In contrast to the above studies; Bennett & Barkensjo (2005) studied relationship quality, relationship marketing, and client perceptions of the levels of service quality of charitable organizations. Questions were asked to 100 people on their perceptions of service quality of the organizations that had given them assistance, their satisfaction with a charity service etc. they constructed a model and estimated using the method of partial least square. Also, perceived service quality was measured via adaptations of the SERVQUAL instrument but without any assessments of the respondents' prior expectations concerning the services they would receive from an organization. In their results, relationship marketing was found to represent an effective weapon for improving both relationship quality and beneficiaries' satisfaction with service provision. They stated that “relationship quality and actual service quality induced beneficiaries to want to recommend a charity to other people and to engage in positive word-of-mouth.”(Bennett & Barkensjo, 2005, p.101). Meaning the beneficiaries who stood as the customers were satisfied since recommendation is signal of satisfaction, confirming the idea that service quality is related to customer satisfaction. They were not directly conducting a research on the relationship between customer satisfaction and service quality, but because when talking about client perceptions, one must think of their satisfaction, and when talking about service quality there is a link between these two as has been proven by many researchers ( Baker-



Prewitt, 2000, p. 73-82; Kuo-YF, 2003, 461-473; Gera, 2011, p. 2-20). This means it could be useful to test these three variables (Customer satisfaction, service quality and Service quality dimensions). The study of Bennett & Barkensjo (2005) stated that “the hypothesis elements of SERVQUAL model (Tangible, assurance etc.) were scientifically associated with the service quality construct” (Bennett & Barkensjo, 2005, p. 101). It could be interesting to test SERVQUAL model with the five dimensions and service quality assuming that expectations is included to see if it will be significantly associated.

In support of the use of SERVQUAL in the relationship between customer satisfaction and service quality, Ahmed et al., (2010) conducted a mediation of customer satisfaction relationship between service quality and repurchase intentions for the telecom sector among university students, with SERVQUAL model’s 5 dimensions (tangibles, responsiveness, empathy, assurance and reliability) by Parasuraman et al. to measure service quality.

To crown the fact that customer satisfaction and service quality are important variables in business research on customers, Gera (2011) investigated the link between service quality, value, satisfaction and behavioural intentions in a public sector bank in India and one of their results states that “Service quality was found to significantly impact on customer satisfaction and value perceptions” (Gera, 2011, p. 2-20)

The literature review shows latest researches up to 2011 on the relationship between customer satisfaction and service quality. The researches in this area have been covered so far as below;

- It has been researched that there is a relationship between customer satisfaction and service quality.
- It has been researched that service quality could be evaluated with the use of SERVQUAL model.
- It has been researched that service quality could be evaluated by other dimensions of service quality that is, functional and technical and not necessarily SERVQUAL model
- Some researchers even tested service quality and service quality dimensions.

What is lacking is the relationship between customer satisfaction and service quality dimensions. Among all the recent articles that I could reach, none of the studies had tested the five dimensions of SERVQUAL and customer satisfaction and service quality at the same time to confirm this relationship between customer satisfaction and service quality.

### **2.1.8 Relationships between Service Quality and Customer Satisfaction**

During past few decades the interest of academics and researchers has been increased to measure the relationship between service quality and customer satisfaction. Both customer satisfaction and service quality are considered as extensive and vast subjects of research and many studies related to customer satisfaction are conducted in the area of service settings (Oliver and Swan, 1989; Cadotte, Woodruff and Jenkins, 1987; Swan and Trawick, 1980).

In marketing theory, the consumer satisfaction category has the main position. It is based on the premise that the profit is made through the process of satisfaction of consumers' demands (Dubrovski, 2001). A further debate has considered whether service quality is a cause customer of satisfaction (Cronin and Taylor, 1992), (Parasuraman et al., 1985). It then helps to identify a link between both constructs.

The Increased level of customer satisfaction , decreases the chances that customers will be pointing the flaws in the quality (Anderson et al., 1997).In service settings it would offer a better perspective of the relative importance of service quality determinants by developing more comprehensive models of the drivers of customer satisfaction [Anderson et al., 1997]. A great similarity between the customer satisfaction and service quality is observed, however researchers are careful to say that these two are different concepts (Spreng and Singh, 1993; Oliva, Oliver, and MacMillan, 1992).

In academics both constructs are recognised as distinct and independent (Oliver, 1980). Whereas a wide literature studies shows that both concepts are distinct conceptually but also are closely related to each other (Parasuraman et al., 1994; Shemwell et al., 1998) and any increase in one (quality) leads to increase in another (satisfaction) (Sureshchandar et al., 2002). However there are number of variations found in literature between service quality and customer satisfaction. Cronin and Taylor, 1994; Boulten and Drew 1991 stated that Satisfaction is customer decision after an experience while quality is not.

According to Cronin and Taylor (1992) it is important to have this distinction between the two concept for managers and academics, as there is a greater need to understand either the firm's objective is to perform in a way that satisfies the customers or they should strive to provide maximum level of service quality perceived by its customers.

There are researchers like Hurley and Estelami (1998) who states that that service quality and satisfaction are distinct constructs, and there is a causal relationship between the two, and the

impression about the quality of service influence emotions related to satisfaction which, in turn, affect future purchase behaviour. Also customer satisfaction is viewed as the overall assessment of the service provider (Anderson et al., 1997).

The literature related to service quality and satisfaction has emphasized that customers compare the performance of product and services on some standards ( Spreng & Mackoy, 1996). Also the quality of service as perceived by the customers is considered as an important factor that affects the level of satisfaction. Due to its relative importance in the service context it became a wide debateable topic and focus of research for academics.

Literature revealed that the difference between perceived service quality and satisfaction is due to the use of different standards of comparison (Zeithaml et al., 1993; Parasuraman et al., 1988) Different authors stated that the standard of comparison to form satisfaction depends on customer's feelings regarding what will come out ( predictive expectations) where perceived service quality defines what customers believe that a firm should deliver, also it is a result of comparing the performance ( Spreng & Mackoy, 1996) .

Overall what different authors state about these two constructs and consider it as distinct concepts there is a great need to analyse the relationship between the two to understand either these are two different concepts or are similar. For this purpose, customer satisfaction with service quality models (McDougall & Levesque, 2000; Spreng & Mackoy,1996) are discussed in the following pages (p21-23) and based on these models a SQCS models is developed(p23-25) to explain the relationship between the both constructs.

### **2.1.9 The Dimensions of Service Quality**

Many scholars agree that service quality can be decomposed into two major dimensions (Grönroos, 1983; Lehtinen and Lehtinen, 1982). The first dimension is concerned with what the service delivers and is referred to by PZB (1985) as “outcome quality” and by Grönroos (1984) as “technical quality”. The second dimension is concerned with how the service is delivered: the process that the customer went through to get to the outcome of the service. PZB (1985) refer to this as “process quality” while Grönroos (1984) calls it “functional quality”. However, while PZB (1985) and PZ (2006) confirmed these distinctions, they often confusingly use “service quality” when they mean “service process quality.” Thus to avoid any further confusion a distinction will be made between “service process” and “service outcome”. Whenever the word

service is used, it should be taken as the total service which is a combination of process and outcome. Likewise, service quality shall be used to refer to the totality of process quality and outcome quality.

PZ define service quality as “the degree and direction of discrepancy between customers’ service perceptions and expectations” (2006). Thus if the perception is higher than expectation, then the service is said to be of high quality. Likewise, when expectation is higher than perception, the service is said to be of low quality. Realizing that there was not enough literature to produce a rigorous understanding of service quality and its determinants, PZB (1985) conducted an exploratory investigation to formally delineate service quality. Their investigation was composed of interviews with executives from four types of service businesses (i.e. retail banking, credit card, securities brokerage, and production repair and maintenance) as well as a number of focus groups composed of individuals who have recently received services from those businesses. One of the results of this investigation was the identification of ten determinants of service process quality. PZB (1985) listed them as follows:

**RELIABILITY** involves consistency of performance and dependability.

**RESPONSIVENESS** concerns the willingness or readiness of employees to provide service.

**COMPETENCE** means possession of the required skills and knowledge to perform the service.

**ACCESS** involves approachability and ease of contact.

**COURTESY** involves politeness, respect, consideration, and friendliness of contact personnel (including receptionists, telephone operators, etc.).

**COMMUNICATION** means keeping customers informed in language they can understand and listening to them. It may mean that the company has to adjust its language for different consumers—increasing the level of sophistication with a well-educated customer and speaking simply and plainly with a novice.

**CREDIBILITY** involves trustworthiness, believability, honesty. It involves having the customer’s best interests at heart.

**SECURITY** is the freedom from danger, risk, or doubt.

**UNDERSTANDING/KNOWING THE CUSTOMER** involves making the effort to understand the customer’s needs.

**TANGIBLES** include the physical evidence of the service.

In a later paper, PZB (1988) found certain overlaps among the dimensions and shortened the list into five dimensions. This new list retained tangibles, reliability, and responsiveness while competence, courtesy, credibility, and security were combined into a new dimension called assurance. Access, communication, and understanding the customer, on the other hand, were placed under a common dimension called empathy. Thus the dimensions are now known as follows:

- **Assurance** - Knowledge and courtesy of employees and their ability to inspire trust and confidence
- **Empathy** - Caring, individualized attention the firm provides its customers.
- **Reliability** - Ability to perform the promised service dependably and accurately.
- **Responsiveness** - Willingness to help customers and provide prompt service.
- **Tangibles** - Appearance of physical facilities, equipment, personnel, and communication materials.

In their 1988 revision, PZB claim that these five dimensions are generic and consistent across different types of services by stating that there was “consistent factor structure...across five independent samples.” However, basing this conclusion on a small sample raises doubts on its validity. Buttle (1996) found serious concerns with the number of dimensions as well as their consistency in different contexts. Carman (1990), after conducting a research which involved testing the five dimensions in services other than those that were used by PZB, warns that “while the PZB items provide a start for item development, all items need to have validity and reliability checks before commercial application.” Carman (1990) further states that the dimensions may have been over-generalized and suggests that some items of the ten dimensions that were no longer explicitly stated in the five dimensions be retained until further factor analysis shows that they really are not unique. Peter et al. (1993) also suggest that the overlap between responsiveness, assurance, and empathy was understated by PZB in their original study. Woo and Ennew (2005), meanwhile, found that in business services markets, the dimensions were completely different.

Thus, at its best, the five dimensions should only be considered as a starting point rather than a tool that can be immediately used in the field.

In their papers, PZB (1985, 1988) and PZ (2006) consistently refer to the list as determinants or dimensions of service quality. However, it appears, from their definition of each dimension that

they are only referring to process quality rather than total service quality. Woo and Ennew (2005) confirm this finding when they stated that PZB's work on service quality dimensions and the subsequent SERVQUAL tool (discussed in a later section) seemed to neglect technical quality altogether and focus mostly on the functional side. Furthermore, Richard and Allaway (1993) clearly state that the dimensions of service quality as it is described by PZB totally neglects technical quality. Parasuraman, in a later work specified that "service" and "services" mean different things (1998). Services (plural), according to him, refer to the intangible core product that a business provides to the firm. In contrast, service (singular) refers to the supplement that accompanies the core offering. Essentially, he uses services to refer to outcome quality, while service to refer to process quality. Because of this poor choice of words, Parasuraman only added further confusion.

Assuming that a better set of words has been selected by PZB, the fact that their model is focused only on process quality still remains. Asubonteng, McCleary, and Swan (1996), on the other hand, defend PZB's model by stating that because outcome quality is difficult to evaluate for any service, customers will often rely on other characteristics of the service to determine its quality. That is, they will rely on the process quality to determine or make an approximation of the total service quality.

Unfortunately, Asubonteng, McCleary, and Swan did not provide any empirical data to confirm this. Their claim that outcome quality is difficult to evaluate for "any service" is flawed and some examples that disprove their statement easily come to mind. Consider the case of a machine shop that is involved in providing machine repair services to business and individual customers. After the service has been provided, the customer is able to measure outcome quality by comparing the outcome against the specifications it provided to the machine shop before the start of the service. In another case, this time a plumbing service where a homeowner has requested the plumber to repair a leaking faucet, the homeowner is able to measure the quality of the outcome by checking if the faucet is still dripping. Apart from this, Richard and Allaway (1993) found that PZB's model—measuring only process quality—was less reliable than another model that measured both process and outcome quality. Thus, PZB's five dimensions of service quality, while useful as a starting point, is an inadequate tool for measuring a firm's total service quality.

### **2.1.10 The Gaps Model of Service Quality**

Other than identifying the gap between expected service and perceived service, PZB also identified four other tributary gaps that originate from the provider's side. These gaps were described as follows:

#### **The Four Provider Gaps (PZB 1988)**

**Gap 1** This gap is said to occur when what customers expect are not the same as what management thinks the customers expect.

**Gap 2** This gap exists when customer service standards are not aligned with management's findings of the customer's expectations.

**Gap 3** This gap is a result of actual service performance not meeting the set performance standards.

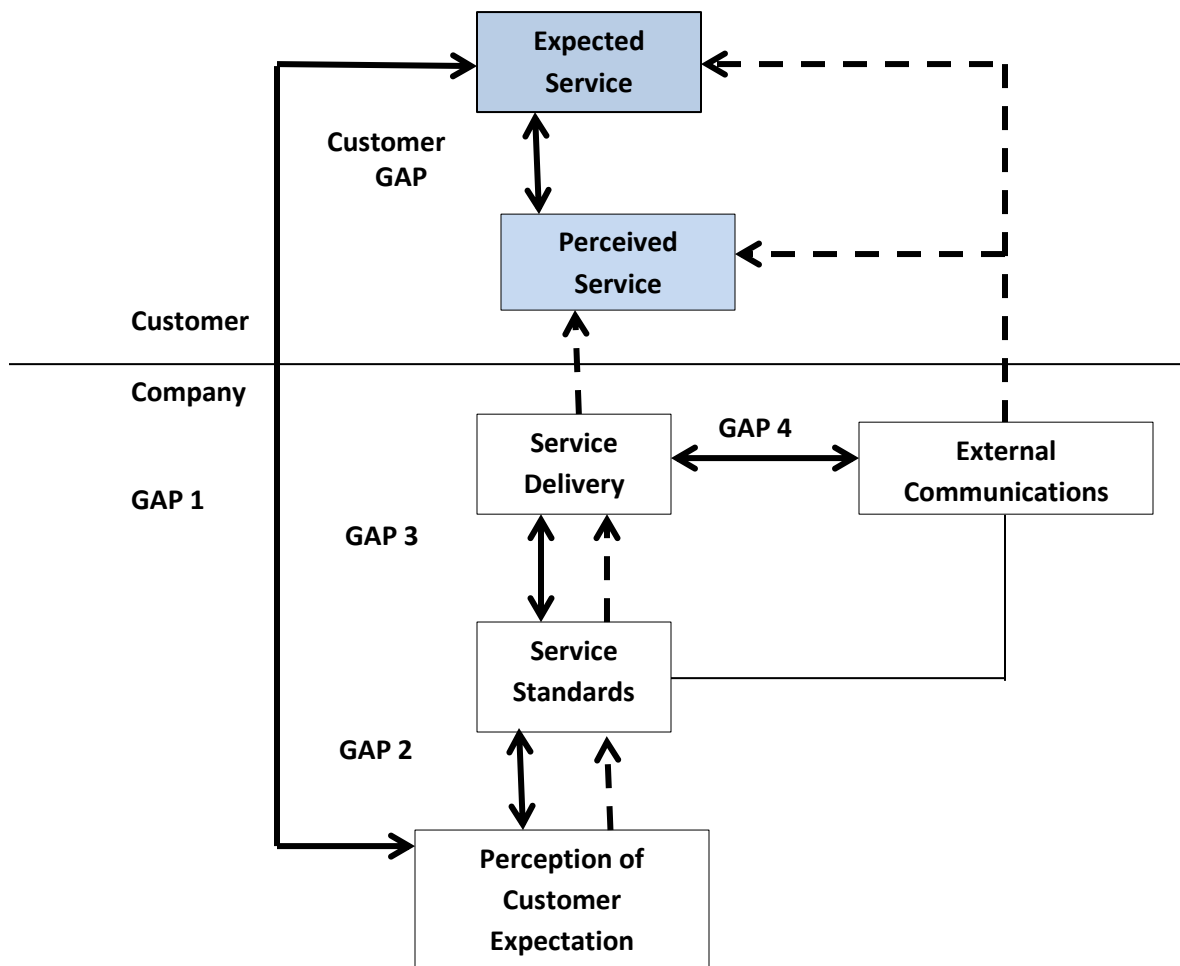
**Gap 4** This gap occurs when the organization's external communication about its service quality does not match the actual service performance.

PZB (1985) and PZ (2006) also provided a diagram to illustrate how these four gaps interacted with one another and with the customer gap. Unfortunately, they were not very clear about the purpose of some of the interconnecting lines between the boxes. To clarify, the gaps are limited to the solid lines with double-headed arrows.

The dotted lines, on the other hand, represent the direction of influence. For example the company's perceptions of consumer expectations influences service standards.

Likewise external communication influences the customer's perceived and expected service. Finally, the line that connects external communications with service standards may be taken to mean that they must be coordinated with one another.

**Figure 2.2** Gaps Model of Service Quality (PZB 2006)



*Source (PZB 2006)*

### **Customer Expectations - Management Perceptions Gap**

- Collect data on customer expectations
- Relate customer data to overall service strategy
- Increase management contact with customers
- Increase internal communications
- Track performance on satisfaction

### **Inappropriate Quality Service Standards**

- Leadership commitment
- “Can’t be done” - create possibilities



- Standardize tasks
- Goal setting - based on service goals The Service-Performance Gap.
- Provide data on performance, on definition of standards for excellent service
- Provide opportunity to change and to grow
- Provide training - educate employees about customers
- Harmonize roles - define in customer service terms
- Develop team environment - work together
- Empower people to solve problems
- Provide support to employees to create high performance service

### **The Promise-Delivery Gap**

- Break down barriers between departments
- Communicate freely
- Understand and mentor internal customers
- Standardize and communicate policies and procedures
- Communicate standards, policies and procedures to customers
- Emphasize primary characteristics
- Manage customer expectations

### **Expected Service - Perceived Service Gap**

- This gap is the result of the other gaps
- This is the gap the customer notices
- Feedback on this gap (complaints) is diagnostic of the other gaps
- Here is where we obtain information that provides the imperative for improvement.
- Proactively seeking feedback here is essential to improvement

## **2.11 SERVQUAL**

PZB, in their 1985 paper, identified the need for a tool that puts into operation the five dimensions and gaps model of service quality. They later followed this up in their 1988 paper with a survey tool named SERVQUAL. The tool is divided into five major categories and labeled according to the five dimensions of service quality as identified by PZB. Within the categories, four or five items are listed, totaling twenty-two. Each item must be answered by the customer two or three times depending on the format being used. The two-column format asks

for the customer's expected performance and his or her perception of the company's performance under each item. Under this format, the customer has to answer a total of forty-four questions. The three-column format adds a third question that asks for the customer's expected minimum service performance, thus increasing the number of questions to a total of sixty-six. The disadvantage of asking this many questions is that it can potentially lead to respondent fatigue which can negatively affect the quality of the data. Carman (1990) states that because of SERVQUAL's long list of questions "it is operationally difficult to follow the PZB procedure for collecting and analyzing these data."

One observation of PZB's SERVQUAL tool is that, while the criteria for judging are embodied by the five dimensions of service quality and are therefore fixed, the scales of each criterion may change from time to time depending on certain factors such as the mood and past experience of the individual being interviewed. For example, a person who is used to five-star hotels will find a four-star hotel of lower quality while a person who has never been to a five-star hotel will find a four-star of high quality. This is one weakness of this market research tool. Perhaps a way around it is to spread the survey across a diverse sample of the market and across various time periods to mitigate the effect of unrelated events that can affect the perception of a group of people. The problem with this, however, is that it can increase the survey cost. Carman (1990) also recognized the possibility that the customer's familiarity with the service can also play a role in setting his or her expectations. Thus his suggestion involves measuring the customer's level of familiarity with the services and to differentiate in that dimension among customers. While this seems like sound advice, it still does not make up for the scenario where a user, after having experienced a service of low quality, has lowered his expectations of future service encounters. The result might be that management will mistakenly interpret the SERVQUAL scores in the next testing period as a signal that their service quality has increased when, in fact, it is only the customer's expectation that decreased. This shortcoming has been identified by other critics such as Buttle (1996). Unfortunately, it has not been addressed by PZB to this day.

According to PZB (1985) and PZ (2006), reliability always emerged as the most critical dimension of service process quality. Boulding et al. (1993) also confirms this finding. However, because PZB (1985), PZ (2006) and Boulding et al. (1993) neither tested these finding across a wider set of service industries as well as across different segments of each industry the validity of their claim is questionable. O'Connor et al. (1993) reported that reliability was not a

significant contributor to customer satisfaction in his research. Meanwhile, Woo and Ennew (2005) indicate that, in their research on service quality in business services markets, “social exchange” which roughly maps to the empathy dimension of PZB’s model, was found to be more important. Fornell et al. (1996) also confirms Woo and Ennew’s findings by stating that empathy had a greater impact on perceived quality than reliability. Thus while reliability may be an important dimension in some businesses, particularly the ones studied by PZB, it may not always be the case in other industries or in other market segments. Asubonteng, McCleary, and Swan (1996) recommend that firms who do not fall under the business types that PZB investigated should conduct further research to find out the dimensions relevant to the service they provide.

Unfortunately, it may not always be the case that businesses have the necessary resources to conduct such a research.

## **2.2 Empirical literature review**

### **2.2.1 Effect of service quality on customer satisfaction**

To obtain products and service a consumer spends both money and resources in the form of time, energy and effort (Zeithaml et al., 1988). Service or product quality and customer satisfaction both have long been considered crucial for success and survival in today’s competitive market. But it is also important to understand what contributes to customer satisfaction that could be a key to achieve competitive advantage.

Consumers are now demanding higher quality in products than ever before (Leonard and Sasser, 1982). The search for quality is arguably the most important consumer trend of the 1980s (Rabin, 1983). The important feature of service firms is to focus on quality, the way it is produced and being offered to the final customer. It is seen that continuous improvements in the quality of services perceived according to the consumer expectations positively affects the satisfaction level and customer’s perceptions about the company.

However, it is worth noting that there are several distinct conceptualizations of quality. Just as current quality is expected to have a positive influence on overall customer satisfaction (Anderson et al., 1994). So we can say that, the effect of expectations of quality on customer

satisfaction is positive and significant (Anderson et al., 1994). Delivering quality service is considered an essential strategy for success and survival in today's competitive environment (Dawkins and Reichheld, 1990). The primary emphasis of both academic and managerial effort focused on determining what service quality meant to customers (Zeithaml et al., 1996). 9

Service quality is a determinant of whether a customer ultimately remains with or defects from a company (Zeithaml et al., 1996). In marketing management literature service quality takes a prominent position. It is usually defined as customer's impression of relative inferiority or superiority of service provide and its service. Also it is often considered similar to overall attitude of customer towards company.

It is also observed that the increased interest in service quality by the firms is due to the fact that service quality is proved to be beneficial to maintain bottom line performance of the firm. Both Service quality and Customer satisfaction terms is being widely used by researchers interchangeably (Sureshchandar et al., 2002).

Studies show that the overall experience with the service quality results in customer satisfaction which leads to customer loyalty. Where the overall service quality ( as perceived) is viewed as a combination of core and relational aspects. In the service literature, core and relational quality are the most basic elements of services. Where core is "what is delivered" and relational is "how it is delivered" (McDougall and Levesque, 1992, 2000).

# **CHAPTER – THREE**

## **3. METHODOLOGY**

The third chapter presents the methodology used to conduct the research. It includes research approach, research method, population, sample and sampling techniques, data collection instruments and method of data analysis.

### **3.1 Research Design**

The research design that is followed in order to conduct this study is descriptive design. It is descriptive research design because it aims to describe, contrast and analyze the problem identified and to describe the relationship between the service quality variables and customer satisfaction and how these dimensions affect customer satisfaction.

### **3.2 Research Approach**

This research used both qualitative and quantitative research methods in this study in order to understand the service quality and customer satisfaction in CBO. Moreover, qualitative research is used, because the researcher believes that qualitative methods will answer the research questions in more suitable way. And the data is analyzed using the Statistical Package for Social Science (SPSS, version 16.0) for the quantitative analyses. This study examined descriptive statistics for the general information of the overall service quality and customer satisfaction of CBO. This study employed Pearson product moment correlation analyses to check the relationship between the variables.

### **3.3 Source of Data**

There are different sources and methods of collecting the data. The two main sources which are generally used are primary and secondary. For this research, the primary data is collected through questionnaires from bank's employees and customers of CBO to assess the study in five SERVQUAL dimensions on customers' satisfaction from customers' point of view.

In addition secondary sources such as bank annual bulletin published, internet, various journals and articles were explored to develop the study background and to get information about the company background.

### **3.4 Method of Data Analysis**

The data that was gathered through primary method were summarize using descriptive statistics through tables, frequency distribution and percentages, mean and standard deviation, Pearson correlation to come up the analyses of data. Mean score is used identify the highest and the lowest of the variables. Pearson's Correlation analysis is used to describe independent variables and the dependent variable.

### **3.5 Sampling Technique**

In choosing the research participants, it could be said that, in this study the researcher chose probability sampling (simple random sampling) is used. In this study, respondents were chosen from employees randomly, because employees are available and it is easy for this study to select randomly from the total employees. And also to select research respondents from the total numbers of customers who have registered on the customer data base of CBO.

### **3.6 Population and sampling**

The study was conducted to assess the level of service quality and customer satisfaction towards of Cooperative bank of Oromia.

The target respondents for the study were 97 customers and 33 employees at headquarter of CBO which is found around Flamingo area Addis Ababa.

### **3.7 Ethical Considerations**

The data obtained from any source was for the exclusively use of this study. It cannot be disclosed to any party & rather kept confidential .The right of respondents or other data provides are respected.

### **3.8 Validity and Reliability**

Generally research approaches are linked with various research philosophies (Saunders et al. 2007). Therefore to ensure the validity of this study the research purpose and approaches were carefully analyzed.

The data is collected through questionnaires from bank's employees and customers of CBO to assess the study in five SERVQUAL dimensions on customers' satisfaction from customers' point of view. To keep the validity of the research, questionnaire was developed based on the existing theories and literature in relevance with the topic of the study. While developing the questions it was targeted d to focus on the research questions, research agenda, relevant theories and main purpose of the study. The questionnaires were checked carefully prior to the respondents. The research focuses on service quality and customer satisfaction and it mainly targets the service industry aiming to improve services standards to satisfy customers. The reliability of the study is considered high because all the information is gathered mainly from questionnaire and relevant theories. The research work is done by following a proper structural process at each stage for better understanding that confirms the reliability of the study. The concept of Reliability in quantitative study is to evaluate with a "purpose of explaining" whereas in qualitative study the concept of quality is "generating understanding (Stenbacka, 2001).

# CHAPTER - FOUR

## 4. RESULT AND DISCUSSION

This chapter focus on the presentation analysis and implementation of data collected from 132 randomly selected customers and 38 employees of CBO. And from those 132 respondents 97 questionnaires were collected back and from 38 questionnaires distributed to the employees 33 questionnaires were properly filled. Thus the analysis is based on the data gathered from 97 questionnaires response from customers and 33 questionnaires response from employees.

**Table 4.1 Data analysis Related to the Study**

	<b>Customers</b>	<b>Employees</b>
<b>Frequency</b>	97	33
<b>Percentage of response rate</b>	73.5	86.8

*Source: Own survey findings, 2017*

Findings of the study are presented in two separate parts. The first part deals with analysis of data gathered from randomly selected customers of CBO. The second part deals with analysis of data gathered from employees,

### 4.1 Demographic Information of the Respondents (Customers)

Data collected from the respondents is obtained in the areas of gender and age. The purpose of this profile is to obtain a visualization of the bank customers responding to the questionnaire.

**Table 4.2 Characteristics of respondents by Gender and Age**

<b>Characteristics</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>		
Male	58	59.8



female	39	40.2
<b>Age</b>		
Below 21	1	1.03
21-34	24	24.7
35-49	51	52.6
50-64	19	19.6
Above 65	2	2.06

*Source: Own survey findings, 2017*

As indicated in the table out of 97 respondents 59.8 % of them are male and the remaining 40.2% of the respondents are female.

As indicated on the above table, among the total distributed questionnaire, the largest groups (51%) of the respondents were found to be in the age category of 35-49. The rest of the respondents composes of 24%, 19%, 2% and 1% are clustered in the age categories of 21-34, 50-64, above 65 and below 21 respectively. This concentration indicated that most of the respondents categorized in the age 35-49.

**Table 4.3 Customer’s educational background**

<b>Level of education</b>	<b>Frequency</b>	<b>Percentage</b>
High school completed	18	18.5
Certificate	10	10.3
Diploma	20	20.61
Bachelor’s degree	44	45.36
Post graduate degree	5	5.15

*Source: Own survey findings, 2017*

From the above table 4.3, the majority of the respondents were grouped under the educational level of Bachelor’s Degree covering 45.36% of the total respondents. The rest of the respondents were categorized under the educational level of, Diploma, High school completed, certificate and Post graduate degree with covering 20.61, 18.5%, 10.3 and 5.15% respondents respectively.

## 4.2 General Discussion of SERVQUAL instrument

After the collection of the questionnaires from the respondents, the researcher explored the level of customers' expectation and perception towards service quality of the bank in five areas: tangibility, reliability, responsiveness, assurance, and empathy. Besides using descriptive statistics of means and standard deviations, gap analysis is used in comparing means between expectation score and perception score of the respondents. For each statement there is the mean expectation (E) and perception (P) value, and the quality value is calculated by the formula  $SQ=P-E$ .

Where:  $SQ$ =Service Quality

$P$ =Perception

$E$ =Expectation

The translation of level ranking is analyzed based on the following criteria of customers' satisfaction designed by Best (1977: 174)

From 1.00-1.80 mean lowest satisfaction (Lowest)

From 1.81- 2.61 mean low satisfaction (Low)

From 2.62 -3.41 mean average satisfaction (Average or Medium)

From 3.42 - 4.21 mean good satisfaction (High)

From 4.22 - 5.00 mean very good satisfaction (Highest)

**Table 4.4 Customer Response According to Reliability**

<b>I. Reliability</b>		Perception Mean	Expectation Mean	Gap
1	When the bank promises to do something by a certain time, it does so	4.29	4.29	0
2	When customers have a problem, the bank shows a sincere interest in solving it	4.20	4.18	0.02

3	Perform services dependably	4.35	4.29	0.06
4	Provide services at time promised	4.29	4.25	0.04
5	Insist on error free services	4.32	4.31	0.01
	<b>Total</b>	<b>4.29</b>	<b>4.26</b>	<b>0.03</b>

*Source: Own survey findings, 2017*

The reliability dimension involves Ability to perform the promised service dependably and accurately.

The above table shows that overall satisfaction of expectation concerning reliability dimension is high (4.26). Overall satisfaction of perception towards reliability dimension is also at the high level (4.29). Even though over all mean score of customers' perception is in the range of high customer satisfaction like that of customers' perception, what they expect is lower than what they perceived.. In this case customer satisfaction with reliability dimensions falls under the range of high customer satisfaction. Therefore, it is possible to say that customers are satisfied. Generally, since customers' expectations are high regarding reliability dimensions the managers should to work hard to enhance the quality of reliability dimensions.

**Table 4.5 Customer Response According to Assurance**

<b>II. Assurance</b>		Perception Mean	Expectation Mean	Gap
6	The behavior of employees in the bank instills confidence in me	4.10	3.97	0.13
7	Customers feel safe in their transactions with the bank	4.06	3.99	0.07
8	Employees politeness	4.03	3.97	0.06
9	The staff has full knowledge of bank information	3.98	3.92	0.06
10	Employees in the bank are always willing to help customers.	3.98	3.88	0.1
	<b>Total</b>	<b>4.03</b>	<b>3.95</b>	<b>0.08</b>

*Source: Own survey findings, 2017*

The assurance dimension involves knowledge and courtesy of employees and their ability to inspire trust and confidence.

The above table shows that overall expectation towards assurance dimension is the highest level (3.95), with trustworthiness and product knowledge of the staff ranking most important (4.03). This implies that most customers expect staff to make them feel safe when staying at the bank and has full knowledge of the bank. The table also indicates that perception of assurance dimension ranked at the highest level (4.03). Therefore, front office staff must have broad and deep knowledge, skills, capacity and experience to satisfy customers.

**Table 4.6 Customer Response According to Responsiveness**

<b>III. Responsiveness</b>		Perception Mean	Expectation Mean	Gap
11	Staff able to tell customers exactly when services would be performed	4.13	3.84	0.29
12	Staff give prompt services to customers	4.26	4.03	0.23
13	Staff always willing to help customers	4.37	4.23	0.14
14	Staff never too busy to respond to customers' requests	4.25	4.16	0.09
<b>Total</b>		<b>4.25</b>	<b>4.06</b>	<b>0.19</b>

*Source: Own survey findings, 2017*

The responsiveness dimension involves willingness to help customers and provide prompt service.

As the table indicated that overall satisfaction of expectation towards responsiveness is at high level (4.06). Customer perception of responsiveness dimension was ranked at the highest level (4.25). This implies that customers of the bank are satisfied because their perceptions are higher than what they expect from the bank. In addition, customers' perception towards responsiveness is at highest level. Therefore, tangibility dimension of service quality affects customers' satisfaction significantly.

**Table 4.7 Customer Response According to Empathy**

<b>IV. Empathy</b>		Perception Mean	Expectation Mean	Gap
15	Give customers individualized attention	4.33	4.34	-0.01
16	Services are convenient to customers	4.18	4.18	0
17	Convenient time operating hours	4.20	4.11	0.09
18	Staff understand the specific needs of their customers	4.37	4.36	0.01
	<b>Total</b>	<b>4.27</b>	<b>4.25</b>	<b>0.02</b>

*Source: Own survey findings, 2017*

The empathy dimension involves caring, individualized attention the firm provides its customers. The above table shows that overall expectation concerning empathy dimension is the highest level (4.25). The table also indicates the overall perception of the empathy dimension which is at the highest level (4.27). There is a negative gap between customers' expectation and perception as indicated in the above table (Give customers individualized attention Gap= -0.01). This does not mean that the empathy dimensions of service quality dissatisfy customers. Even though the mean score of expectation from giving customers individualized attention is greater than perception, the overall mean score of customers' perception is greater than the overall of their expectation. Therefore, it is possible to say that customers are satisfied.

**Table 4.8 Customer Response According to Tangibles**

<b>V. Tangibles</b>		Perception Mean	Expectation Mean	Gap
19	The bank has modern-looking equipment	4.15	4.10	0.05
20	The bank's physical facilities are visually appealing	3.96	3.68	0.28
21	The bank's employees are well presented	3.93	3.78	0.15
22	Materials associated with the service are visually appealing at the bank	4.03	3.94	0.09
	<b>Total</b>	<b>4.02</b>	<b>3.87</b>	<b>0.15</b>

*Source: Own survey findings, 2017*

The Tangibles dimension involves appearance of physical facilities, equipment, personnel, and communication materials.

The above table indicates that overall expectation towards tangibles dimension was at the high level (3.87). The bank has modern-looking equipment received the highest ranking of expectation at 4.10. It is highly possible that customers are satisfied when the bank's physical facilities are visually appealing. The table also shows that overall satisfaction of perception towards responsiveness was at a high level (4.02). Generally, customers' expectation and perception towards responsiveness of the bank falls under high level customer satisfaction.

**Table 4.9 Overall customer satisfaction levels accordingly to their response**

	<b>Mean</b>	<b>Std. Deviation</b>
Overall Customer Satisfaction	4.15	.409

*Source: Own survey findings, 2017*

**Table 4.10 Overall customer satisfactions level towards service quality**

<b>No</b>	<b>Service Quality Dimensions</b>	<b>Perception Mean</b>	<b>Expectation Mean</b>	<b>Gap</b>
1	Responsiveness	4.25	4.06	0.19
2	Tangibility	4.02	3.87	0.15
3	Assurance	4.03	3.95	0.08
4	Reliability	4.29	4.26	0.03
5	Empathy	4.27	4.25	0.02
	<b>Total</b>	<b>4.172</b>	<b>4.078</b>	<b>0.094</b>

*Source: own survey findings, 2017*

As shown on the above table overall satisfaction of expectation on the five dimensions. The result of customers expectation shows that reliability dimension is at the high level (4.26) followed by empathy (4.25), responsiveness (4.06), assurance (3.95), and tangibility (3.87) in descending orders. Most customers expect the employee to be effective in reliability, empathy and responsiveness respectively-customers expectation is high regarding these dimensions. The

table also indicates that overall satisfaction of perception on the five dimensions. Like that of their expectations most customers perceived reliability the most important dimension at (4.29), followed by empathy (4.27), responsiveness (4.25), assurance (4.03), and tangibility (4.02) in the descending order. In this study, reliability dimension was the most vital factor in which both the customers' expectation and perception are very high as compared with the other dimensions. The SERVQUAL gap is calculated between the mean score of expectation and perception. The findings of the study show the difference between expectation and perception as shown in table above 4.10.

### 4.2.1 Correlation Analysis

The correlation analysis result was performed to see the association between SERVQUAL dimensions and customer satisfaction. This includes both the negative and positive relationships. In addition, the significance levels of the association were computed. Therefore, the correlation analysis revealed the relationship between Reliability, Empathy, Assurance, Responsiveness and Tangibility with customer satisfaction. If the correlation result 0.1 – 0.29 is weak; 0.3 – 0.49 is moderate; and > 0.5 is strong.

**Table 4.11 Correlation analysis result service quality dimensions and satisfaction by overall service quality.**

Service Quality Dimensions	Customer Satisfaction
Responsiveness	.294 <sup>**</sup>
Tangibility	.261 <sup>**</sup>
Assurance	.252 <sup>**</sup>
Reliability	.261 <sup>**</sup>
Empathy	.135 <sup>*</sup>
Overall Service Quality	.456 <sup>**</sup>

*Source: Own survey findings, 2017*

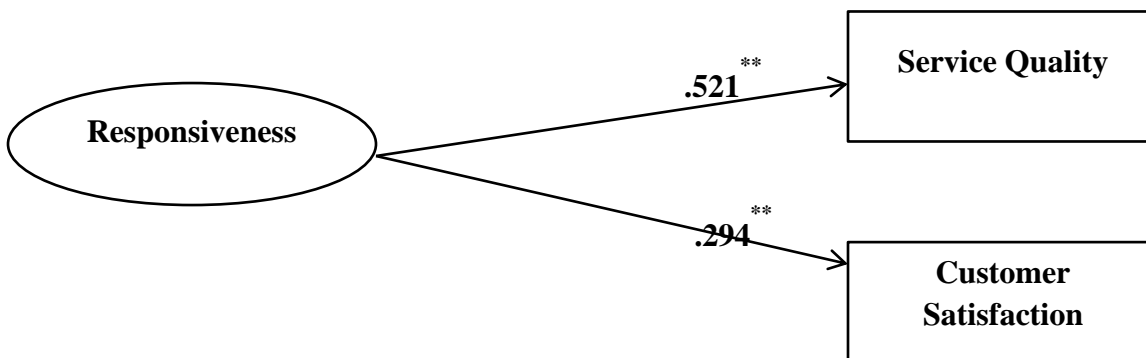
\*correlation is significant at the 0.05 level (2-tailed)

\*\*correlation is significant at the 0.01 level (2-tailed)

The below figures indicates that Assurance shows the highest positive correlation ( $r=.639^{**}$ ,  $p<0.01$ ) with overall service quality and positively correlated with customer satisfaction ( $r=.252^{**}$ ,  $p<0.01$ ) and Reliability demonstrates the second highest positive correlation( $r=.595^{**}$ ,  $P<0.01$ ) with overall service quality and correlates with customer satisfaction ( $r=.261^{**}$ ,  $p<0.01$ ). Empathy reveals the least positive correlation ( $r=.346^{**}$ ,  $p<0.01$ ) with service quality and with customer satisfaction ( $r=.135^{*}$ ,  $p<0.05$ ).

In this case, the result is interpreted and discussed using the following diagrams one by one.

**Figure: 4.1 Correlation Model Of responsiveness**

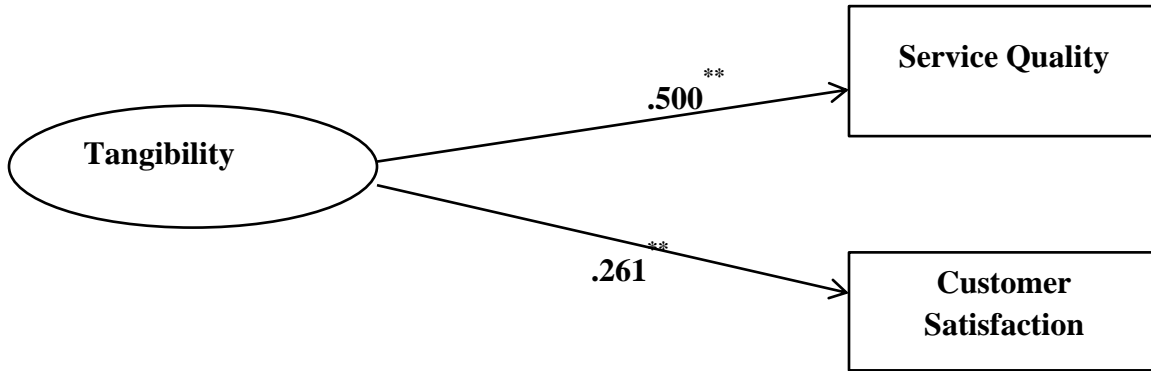


*Source: Own survey findings, 2017*

Figure 4.4.1 the above figure attempted to clarify the correlation between responsiveness as independent variable and variable customer satisfaction as the dependent. As it is already indicated through the diagram, the two variables have significantly positive relationship. Responsiveness shows the highest positive correlation ( $r=.521^{**}$ ,  $p<0.01$ ) with overall service quality and positively correlated with customer satisfaction ( $r=.294^{**}$ ,  $p<0.01$ ).

**Figure: 4.2 Correlation Model of Tangibility**

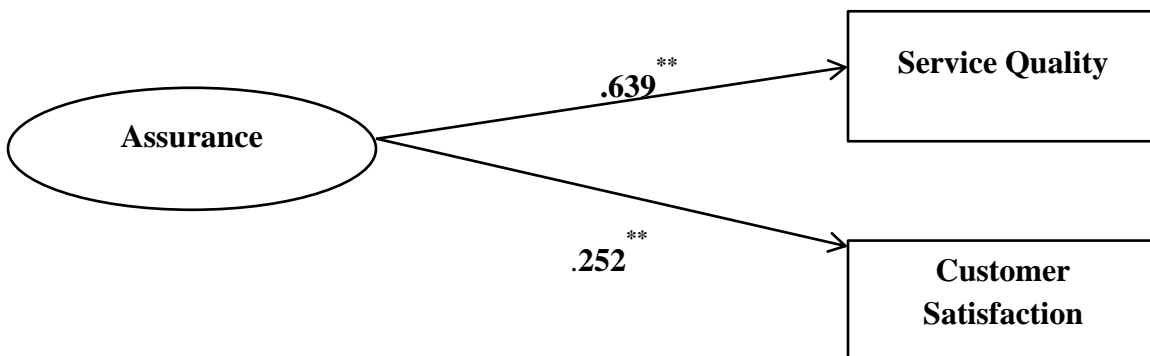




*Source: Own survey findings, 2017*

The relationship between tangibility is also shown through the above diagram. The correlation result of the two variables. Tangibility shows positive correlation ( $r=.500^{**}$ ,  $p<0.01$ ) with overall service quality and positively correlated with customer satisfaction ( $r = .261^{**}$ ,  $p< .01$ )

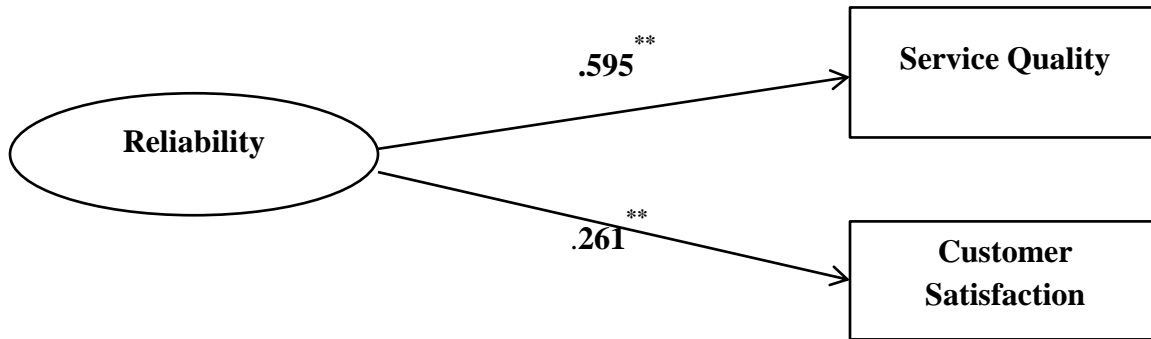
**Figure: 4.3 Correlation Model of Assurance**



*Source: own survey findings, 2017*

The above diagram also tried to show the relationship between assurance as independent variable and customer satisfaction as dependent variable. Assurance shows positive correlation ( $r=.639^{**}$ ,  $p<0.01$ ) with overall service quality and positively correlated with customer satisfaction ( $r = .252^{**}$ ,  $p< .01$ ).

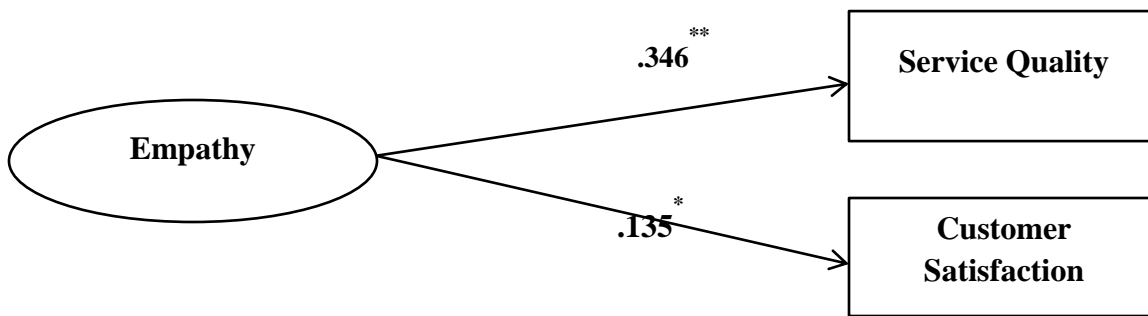
**Figure: 4.4 Correlation Model Of Reliability**



*Source: Own survey findings, 2017*

The above figure also tried to explain the relationship between the reliability as independent variable and the dependent variable customer satisfaction. Reliability shows positive correlation ( $r=.595^{**}$ ,  $p<0.01$ ) with overall service quality and positively correlated with customer satisfaction ( $r = .261^{**}$ ,  $p< .01$ ).

**Figure: 4.5 Correlation Model Of Empathy**



*Source: Own survey findings, 2017*

The above figure also tried to explain the relationship between the empathy as independent variable and the dependent variable customer satisfaction. Empathy shows positive correlation ( $r=.346^{**}$ ,  $p<0.01$ ) with overall service quality and positively correlated with customer satisfaction ( $r = .135^*$ ,  $p< .05$ ).

## 4.2.2 Summary Correlation Statics

From the above statistical tests the following summary is drawn, to show the differences between one variable with the other variables. The dependent variable (corporate customer satisfaction) and independent variables (five dimensions) related with each other. In other contexts, the “\*\*\*”sign shows the correlation result between the variables. Therefore, the result reflects that customer satisfaction is affected by five dimensions variables. Among these dimensions **Responsiveness** has moderately correlated with customer satisfaction (.294\*\*), followed by **Tangibility** (.261\*\*), **Assurance** has strong relation (.252\*\*) and **Reliability** (.261\*\*). The last, **Empathy** has the smallest correlation with customer satisfaction (.135\*\*).

**Table 4.12 Results Based on Correlation Statistics**

No	Independent Variables	Correlation value	Dependent Variables	Results
1	Responsiveness	.294**	Customer Satisfaction	Supports
2	Tangibility	.261**	Customer Satisfaction	Supports
3	Assurance	.252**	Customer Satisfaction	Supports
4	Reliability	.261**	Customer Satisfaction	Supports
5	Empathy	.135**	Customer Satisfaction	Supports

*Source: Own survey findings, 2017*

## 4.3 Demographic Information of the Respondents (Employees)

Data collected from the respondents is obtained in the areas of gender and age. The purpose of this profile is to obtain a visualization of the bank employees responding to the questionnaire.

**Table 4.13 Characteristics of respondents by Gender and Age**

Characteristics	Frequency	Percentage
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<b>Gender</b>		
Male	20	60.6
female	13	39.4
<b>Age</b>		
Below 21	-	-
21-34	21	63.6
35-49	9	27.3
50-64	3	9.1
Above 65	-	-

*Source: Own survey findings, 2017*

As indicated in the table out of 33 respondents 60.6 % of them are male and the remaining 39.4% of the respondents are female.

As indicated on the above table, among the total distributed questionnaire, the largest groups (63.6%) of the respondents were found to be in the age category of 21-34. The rest of the respondents composes of 27.3%, and 9.1% are clustered in the age categories of 35-49, and 50-64 respectively. This concentration indicated that most of the respondents categorized in the age 21-34.

**Table 4.14 Work experience of employees**

<b>No of years of experience</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 1 year	3	9.1
1-2 years	10	30.3
2-5 years	12	36.3
5-10 years	6	18.2
10 years and more	2	6.1

*Source: Own survey findings, 2017*

From above table, the largest groups of respondents 12 (36.3%) have a working experience of 2 to 5 years on the current job whereas 10 (30.3%) are in the range of 1 to 2 years, 6 (18.2%) are in the range of 5 to 10, 3 (9.1%) have a working experience of less than 1 year, and lastly 2 (5.405%) were in the range of 10 years and above.

#### 4.4 The Employees' response towards Activities done in CBO

Based on the responses gathered from the employees of the bank, it is tried to discuss the employees' perception towards activities done in CBO. The questionnaires were designed using Likert Scale where almost all the statements were measured on a five point scale with 1 = strongly Agree; 2 = agree; 3 = neither agree nor disagree (neutral); 4 = disagree; and, 5 = strongly disagree. The information obtained from the questionnaire are summarized and discussed in the tables below.

**Table 4.15 CBO's strategy and Planning**

Questions		Scale of Measurement				
		1 strongly disagree	2 Disagree	3 Neutral	4 agree	5 strongly agree
1	I understand CBO's plan and mission/vision	-	1 (3.03%)	7 (21.21%)	14 (42.42%)	11 (33.33%)
2	I have confidence in the leadership of CBO	-	-	6 (18.18%)	20 (60.6%)	7 (21.21%)
<b>Average Response</b>		-	<b>3.03%</b>	<b>19.695%</b>	<b>51.51%</b>	<b>27.27%</b>

*Source: Own survey findings, 2017*

In the above table, the findings shows that 33.33% and 21.21% of the respondents strongly agree with the way they understand CBO's long-term strategy and have confidence in the leadership of CBO . Out of the total respondents 3.03% of the respondents indicated that the bank has not done enough for the employees to understand the strategies, planning mission/vision.

**Table: 4.16 CBO employees' role**

Your role at CBO	1 strongly disagree	2 Disagree	3 Neutral	4 agree	5 strongly agree
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3	I am given enough authority to make decisions	-	2 (6.06%)	5 (15.15%)	19 (57.57%)	7 (21.21%)
4	I like the type of work that I do	-	1 (3.03%)	9 (27.27%)	14 (42.42%)	9 (27.27%)
<b>Average Response</b>		-	<b>4.545%</b>	<b>21.21%</b>	<b>50%</b>	<b>24.24%</b>

*Source: Own survey findings, 2017*

In the above table, majority of the respondents (57.57%, and 42.42% respectively) agree with the statements ‘I am given enough authority to make decisions, I like the type of work that I do and (27.27% and 21.21%) of respondents strongly agrees with the statement, whereas 6.06% and 3.03%) respondents respectively disagree with statements stated under the role they play in the CBO.

**Table: 4.17 CBO Corporate culture**

Corporate culture		1 strongly disagree	2 Disagree	3 Neutral	4 agree	5 strongly agree
5	CBO’S communications are frequent enough	-	2 (6.06%)	4 (12.12%)	20 (60.6%)	7 (21.21%)
6	Service quality is a top priority with CBO	-	1 (3.03%)	4 (12.12%)	18 (54.54%)	10 (30.3%)
7	CBO is customer-based bank	-	1 (3.03%)	7 (21.21%)	21 (63.63%)	4 (12.12%)
<b>Average Response</b>		-	<b>4.04%</b>	<b>15.15%</b>	<b>59.59%</b>	<b>21.21%</b>

*Source: Own survey findings, 2017*

In the above table, majority of the respondents (about an average of 21% respondents strongly agree and 59.59% the respondents agree) with the bank's cultures like Service quality is a top priority with CBO, communications are frequent enough, CBO is customer-based bank,. Out of the total respondents, an average 4.04% and 15.15% of the respondents are disagreeing and have neutral opinion with the bank's culture respectively.

**Table: 4.18 CBO'S training program**

<b>CBO'S training program</b>		<b>1</b> <b>strongly</b> <b>disagree</b>	<b>2</b> <b>Disagree</b>	<b>3</b> <b>Neutral</b>	<b>4</b> <b>agree</b>	<b>5</b> <b>strongly</b> <b>agree</b>
8	CBO provides induction program	-	3 (9.09%)	9 (27.27%)	17 (51.51%)	4 (12.12%)
9	CBO provides as much ongoing training as I need	-	1 (3.03%)	5 (15.15%)	20 (60.6%)	7 (21.21%)
<b>Average Response</b>		<b>-</b>	<b>6.06%</b>	<b>21.21%</b>	<b>56.055</b>	<b>33.33</b>

*Source: Own survey findings, 2017*

As indicated in the above table, an average of 33.33% and 56.055% of the respondents respectively have expressed that they strongly agree and agree with the CBO's training program in that CBO provides induction program, CBO has a skill up grading training program, and CBO provides as much ongoing training as I need. Averages of about 21.21 and 6.06% of them have indicated that they are neutral and disagree with the bank training program.

**Table: 4.19 CBO'S Recognition and Rewards**

<b>CBO'S Recognition and Rewards</b>	<b>1</b> <b>strongly</b> <b>disagree</b>	<b>2</b> <b>Disagree</b>	<b>3</b> <b>Neutral</b>	<b>4</b> <b>agree</b>	<b>5</b> <b>strongly</b> <b>agree</b>
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10	CBO gives enough recognition for work that's well done	-	2 (6.06%)	4 (12.12%)	21 (63.63%)	6 (18.18%)
11	My salary is fair for my responsibilities	-	3 (9.09%)	12 (36.36%)	15 (45.45%)	3 (9.09%)
<b>Average Response</b>		-	<b>7.575%</b>	<b>24.24%</b>	<b>54.54%</b>	<b>13.635%</b>

*Source: Own survey findings, 2017*

Regarding the recognitions and rewards provided by the bank to employees, an average of 13.635% and 54.54% of the respondents ensured that they strongly agree and agree with the recognition and rewards system provided by the bank. But out of the total respondents, averages of 24.24% and 7.575% of them have expressed their feelings indicating that they are neutral and disagree with the rewards and recognitions provided by CBO.

**Table: 4.20 CBO'S Working Conditions**

Working Conditions		1 strongly disagree	2 Disagree	3 Neutral	4 agree	5 strongly agree
14	I have the materials and equipment I need to do my job well	-	1 (3.03%)	4 (12.12%)	17 (63.63%)	11 (33.33%)
15	The physical working conditions are good	-	-	3 (9.09%)	16 (48.48%)	14 (42.42%)
<b>Average Response</b>		-	<b>3.03%</b>	<b>10.605%</b>	<b>50%</b>	<b>37.875%</b>

*Source: Own survey findings, 2017*

Regarding working conditions of CBO, an average of 37.875% and 50% of the respondents ensured that they strongly agree and agree with the bank's working conditions. But out of the



total respondents, averages 10.605% of them have expressed their feelings indicating that they have neutral feeling about CBO's working condition.

**Table: 4.21 CBO'S education opportunity**

<b>CBO'S education opportunity</b>		<b>1</b> <b>strongly</b> <b>disagree</b>	<b>2</b> <b>Disagree</b>	<b>3</b> <b>Neutral</b>	<b>4</b> <b>agree</b>	<b>5</b> <b>strongly</b> <b>agree</b>
14	opportunities for career development	-	2 (6.06%)	16 (48.48%)	10 (30.3%)	5 (15.15%)
15	Better educational opportunities	-	2 (6.06%)	15 (45.45%)	12 (36.36%)	4 (12.12%)
<b>Average Response</b>		<b>-</b>	<b>6.06%</b>	<b>46.965%</b>	<b>33.33%</b>	<b>13.635%</b>

*Source: Own survey findings, 2017*

As indicated in the above table, an average of 13.635% and 33.33% of the respondents respectively have expressed that they strongly agree and agree with the CBO's education opportunity, Averages of about 46.965% and 6.06% of them have indicated that they are neutral and disagree with the bank education opportunity .

**Table: 4.22 CBO'S employees overall satisfaction level**

<b>CBO'S employees overall satisfaction level</b>		<b>1</b> <b>strongly</b> <b>disagree</b>	<b>2</b> <b>Disagree</b>	<b>3</b> <b>Neutral</b>	<b>4</b> <b>agree</b>	<b>5</b> <b>strongly</b> <b>agree</b>
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<b>Frequency</b>	-	<b>2</b>	<b>7</b>	<b>17</b>	<b>7</b>
<b>Percentage</b>	-	<b>6.06%</b>	<b>21.21%</b>	<b>51.51%</b>	<b>21.21%</b>

*Source: Own survey findings, 2017*

Employees are the most valuable asset of every company as they can make or break a company's reputation and can adversely affect profitability. Employees often are responsible for the great bulk of necessary work to be done as well as customer satisfaction and the quality of services. Based on all of the above 7 categories the respondents were also asked to rate their overall satisfaction with the bank. From the total respondents, 21.21% and 51.51% have responded that they are very satisfied and satisfied respectively. And the other 21.21% and 6.06% have expressed that they are neutral and dissatisfied respectively.

# CHAPTER – FIVE

## 5. CONCLUSION AND RECOMMENDATIONS

### 5.1 CONCLUSION

The main intention of this study is to seek and measure the level of customer satisfaction and service qualities delivered by headquarter of CBO, which is found around Flamingo area Addis Ababa. In order to meet the above objectives the researcher has collected primary data by questionnaire from customers and employees of CBO and secondary data gained from the company's website and written documents ,the following conclusion has drown.

The customer gap is evaluated on the basis of five service quality dimensions encompassing Tangibility, Reliability, Responsiveness, Assurance and Empathy. Based on these five service quality dimensions questionnaire is conducted. The questions posed are all pertaining to service quality attribute aiming to explore the respondents expected and perceived service evaluations in all aspects of the service delivery of the bank. This study focused further on the gap between customers' expectation and their perception of the bank (CBO).

The study reveals that overall satisfaction of expectation on the five dimensions. The result of customers expectation shows that reliability dimension is at the high level (4.26) followed by empathy (4.25), responsiveness (4.06), assurance (3.95), and tangibility (3.87) in descending orders. The study also reveals that overall satisfaction of perception on the five dimensions. Like that of their expectations most customers perceived reliability the most important dimension at (4.29), followed by empathy (4.27), responsiveness (4.25), assurance (4.03), and tangibility (4.02) in the descending order. In this study, reliability dimension was the most vital factor in which both the customers' expectation and perception are very high as compared with the other dimensions. The SERVQUAL gap is calculated between the mean score of expectation and perception. The results showed that the overall mean score of perception (m=4.172) is higher than expectation (m=4.078) in all dimensions, yielding a positive SERVQUAL gap. Hence, customers are satisfied with all dimensions of service quality.

Assurance shows the highest positive correlation ( $r=.639^{**}$ ,  $p<0.01$ ) with overall service quality and positively correlated with customer satisfaction ( $r=.252^{**}$ ,  $p<0.01$ ) and Reliability demonstrates the second highest positive correlation ( $r=.595^{**}$ ,  $P<0.01$ ) with overall service quality and correlates with customer satisfaction ( $r=.261^{**}$ ,  $p<0.01$ ). Responsiveness shows the third highest positive correlation ( $r=.521^{**}$ ,  $p<0.01$ ) with overall service quality and positively correlated with customer satisfaction ( $r=.294^{**}$ ,  $p<0.01$ ). Tangibility shows the fourth stage positive correlation ( $r=.500^{**}$ ,  $p<0.01$ ) with overall service quality and positively correlated with customer satisfaction ( $r = .261^{**}$ ,  $p< .01$ ). And at last Empathy reveals the least positive correlation ( $r=.346^{**}$ ,  $p<0.01$ ) with service quality and with customer satisfaction ( $r=.135^{*}$ ,  $p<0.05$ ).

Overall perception is higher than expectation in all dimensions, and has a positive SERVQUAL gap. Hence, customers are satisfied with all dimensions of service quality. And on the other hand the bank needs to consider the weak areas in order to meet customer requirement.

## 5.2 Recommendations

Service quality and customer satisfaction are proved to be the important determinants to maintain the overall performance system of the bank. There are some recommendations derived from the findings of this research.

- Management has to motivate their employees by providing necessary incentives. Only motivated employees can provide prompt and efficient services to customers.
- Managers should always consider the fact that a good customer service can cover the flaws or loop holes of overall service system.
- In the current scenario of the banking industry the environment of its come highly competitive, most of the banks offer identical products and services. Therefore, to survive with in this industry as well as to maintain sustainable competitive advantage the bank should be focus on customer satisfaction by offering differentiate services.
- The bank should offer opportunities for career development.

- The management of the bank should always consider the needs of the customers. Since loyalty emerges in the customers once their acknowledged as well as needs are fulfilled by the management of the bank.
- The management of the bank should frequently take the feedback of customers and should incorporate the changes desired by the customers in their feedbacks.
- Reliability shown to be the most important factor that determines customers' satisfaction in CBO. So, the bank should emphasize in order to make their service to be distinguishable from other banks.
- Tangibility is again other feature of corporate customers' satisfaction in CBO. In view of this factor that determine customers' satisfaction of the bank such as: The bank's employees are well presented and the bank's physical facilities are visually appealing are the dimension that need more attention.

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[www.cbo.e](http://www.cbo.e)

Appendix - I

St. Mary's University  
School of Graduate Studies  
Department of General- MBA



QUESTIONNAIRE TO BE FILLED BY CUSTOMERS OF CBO

Dear Respondent

This study is conducted as partial fulfillment for the completion of Master of Business Administration (MBA). The general objective of the research is to evaluate customer expectation and perception levels on the service quality of Cooperative Bank of Oromia, and there by the customer satisfaction. This questionnaire is to be filled by customers and it is designed and used only for academic purpose. The information you will offer will be kept confidential and I guarantee you that it will never be disclosed to third party. Your genuine response to the questions will have great immeasurable contribution to the outcome of the final research project.

Thank you for your cooperation

Dawit Degefa

Part-I: General Information

Use (X) mark in boxes were your response matches

- 1. Gender : Female   
Male

- 2. Age group: below 21 years old  21 to 34 years old   
35 to 49 years old  50 to 64 years old   
65 and above



3. Please indicate the highest level of education you have attained

Never been to school  completed elementary school

Completed high school  completed certificate

Completed diploma  obtained a bachelor's degree

Postgraduate degree (masters or doctorate degree)

## Part II: Survey Questions

No.	Dimensions	Scale of Measurement				
		1 strongly disagree	2 Disagree	3 Neutral	4 agree	5 strongly agree
<b>I. Reliability</b>						
1	When the bank promises to do something by a certain time, it does so					
2	When customers have a problem, the bank shows a sincere interest in solving it					
3	Perform services dependably					
4	Provide services at time promised					
5	Insist on error free services					
<b>II. Assurance</b>						
6	The behavior of employees in the bank instills confidence in me					
7	Customers feel safe in their transactions with the bank					
8	Employees politeness					
9	The staff has full knowledge of bank information					
10	Employees in the bank are always willing to					

	help customers.					
<b>III. Responsiveness</b>						
11	Staff able to tell customers exactly when services would be performed					
12	Staff give prompt services to customers					
13	Staff always willing to help customers					
14	Staff never too busy to respond to customers' requests					
<b>IV. Empathy</b>						
15	Give customers individualized attention					
16	Services are convenient to customers					
17	Convenient time operating hours					
18	Staff understand the specific needs of their customers					
<b>V. Tangibles</b>						
19	The bank has modern-looking equipment					
20	The bank's physical facilities are visually appealing					
21	The bank's employees are well presented					
22	Materials associated with the service are visually appealing at the bank					

## Appendix - II

**St. Mary's University**  
**School of Graduate Studies**  
**Department of General- MBA**



### QUESTIONNAIRE TO BE FILLED BY EMPLEES OF CBO

**Dear Respondent**

This study is conducted as partial fulfillment for the completion of Master of Business Administration (MBA). The general objective of the research is to evaluate customer expectation and perception levels on the service quality of Cooperative Bank of Oromia, and there by the customer satisfaction. This questionnaire is designed and used only for academic purpose. The information you will offer will be kept confidential and I guarantee you that it will never be disclosed to third party. Your genuine response to the questions will have great immeasurable contribution to the outcome of the final research project.

**Thank you for your cooperation**

**Dawit Degefa**

#### **Part I personal data**

##### **Part-I: General Information**

Use (X) mark in boxes were your response matches

1. Gender : Female   
Male

2. Age group: below 21 years old  21 to 34 years old

35 to 49 years old

50 to 64 years old

65 and above

3. How long have you worked for CBO?

Less than one year

One year to two years

Two years to five years

Five years to ten years

Ten years or more

**Part II: Survey Questions**

Please select the following on a scale 1-5 to reflect your feelings and the extent to which you agree with statements. The minimum you may select is 1 and maximum 5. This means 1= strongly disagree, 2= disagree, 3=neutral, 4=agree, and 5=strongly agree. Please circle or highlight your answer in bold.

No	Questions	1 Strongly disagree	2 disagree	3 Neutral	4 Agree	5 Strongly agree
<b>CBO'S Strategies and planning</b>						
1	I understand CBO's plan and mission/vision					
2	I have confidence in the leadership of CBO					
<b>Your role at CBO</b>						
3	I am given enough authority to make decisions					
4	I like the type of work that I do					
<b>Corporate culture</b>						
5	CBO'S corporate communications					

	are frequent enough					
6	Service quality is a top priority with CBO					
7	CBO is customer-based bank					
<b>CBO'S training program</b>						
8	CBO provides induction program					
9	CBO provides as much ongoing training as I need					
<b>CBO'S Recognition and Rewards</b>						
10	CBO gives enough recognition for work that's well done					
11	My salary is fair for my responsibilities					
<b>Working Conditions</b>						
12	I have the materials and equipment I need to do my job well					
13	The physical working conditions are good					
<b>CBO'S education opportunity</b>						
14	opportunities for career development					
15	Better educational opportunities					
16	<b>Your overall satisfaction with CBO</b>					