



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

**THE IMPACT OF SERVICE QUALITY ON CUSTOMER LOYALTY:  
THE CASE OF WEGAGEN BANK SHARE COMPANY**

**BY  
FILIMON ALENE**

**MAY, 2018**

**ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF  
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTER IN MARKETING  
MANAGEMENT**

**MAY, 2018  
ADDIS ABABA, ETHIOPIA**

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

I Filimon Alene, the undersigned, declare that this thesis is my original work, prepared under the guidance of **Asfaw Yilma (PhD)**. All sources of materials 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 institution for the purpose of earning any degree.

**Filimon Alene**

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**Name**

**Signature & Date**

## **ENDORSEMENT**

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

**Asfaw Yilma (PhD)**  
**Advisor**

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**Signature & Date**

## ACKNOWLEDGMENT

The assistance many individuals have made this study possible. First and foremost, I thank my source and redeemer, Jesus the Lord, for his unfailing and agape love and also for his active presence in my life as stated in His Holy Book.

I would also like to extend my deepest gratitude to my beloved mom, L/Colonel Medhin Nega (Gual Dambush); my brother Winta Cherkos , for their consistent love, support and patience while I was on this project. I know this dedication cannot compensate for the time you missed out during the period of this study specially Tekalign Werdofa. However it is to say that I really appreciate your love and support.

I also express my heartfelt gratitude to my study leader, Dr. Asfaw Yilma for his meticulous reflections, valuable support and guidance in the course of conducting my study. He was always available to offer me guidance through email and telephone call.

I wish to take this golden opportunity to express my deepest thanks to Ato Tekle Shifare for his advice and full support.

Last but not least, my heartfelt gratitude goes to my family members and friends for their moral and material supports and engagements, without whom it would have been difficult to complete my study and thesis work.

My final appreciation goes to all the respondents and to my colleague staff, who have contributed in diverse ways in ensuring the successful completion of this work. I say God richly bless you.

## ***Abstract***

*The main goal of this study is appraising the service quality level of Wegagen Bank Share Company's and investigating its impact on customer loyalty. To this end, these customers' level of loyalty and their perception of the quality of service being provided by this bank were investigated. To accomplish this, Descriptive research design employed Self-administered questionnaire with 22 items SERVPERF scale, on a five-point Likert-type was used by this research to evaluate the impact of service quality on customer loyalty to 301 customers of Wegagen Bank using convenience sampling technique. Data from the questionnaires were analyzed through descriptive statistics and chi square test. Binary logistics regression analysis was also used with the help of SPSS version 25 statistical software program. According to the findings, customers are not much complaining physical design and appearance of the bank. However, of these dimensions, responsiveness and reliability were found to be low to customers. The impact of service quality on loyalty is observed with reliability and tangibility dimension of SERVPERF model according to Binary Logistics Regression result. The findings demonstrated that improvement in service quality can enhance customer loyalty. It is recommended that improving the reliability, looks of employees and physical facilities will enhance the loyalty of customer to the Bank.*

# Contents

DECLARATION .....	i
ENDORSEMENT .....	i
ACKNOWLEDGMENT .....	i
<i>Abstract</i> .....	ii
List of Table .....	v
List of Figures .....	vi
Acronyms .....	vii
CHAPTER ONE .....	1
INTRODUCTION .....	1
1.1 Background of the Study .....	1
1.1.1 Company Profile .....	4
1.2 Statement of the Problem .....	5
1.3 Research Questions .....	8
1.3 Objectives of the Study .....	8
1.3.1 General Objectives .....	8
1.3.2 Specific Objectives .....	8
1.4 Significance of the Study .....	9
1.5 Limitations of the Study .....	9
1.6 Organization of the Study .....	10
CHAPTER TWO .....	11
REVIEW OF RELATED LITRETURE .....	11
2.1 Theoretical Literature .....	11
2.1.1 A definition of Service .....	11
2.1.2 Characteristics of Service .....	12
2.1.3 Definitions of Service Quality .....	14
2.1.4 Service Quality Dimensions .....	15
2.1.5 Quality .....	17
2.1.6 Emerging Quality Description .....	18
2.1.7 SERVQUAL .....	18
2.1.8 Critiques of SERVQUAL .....	19
2.1.9 SERVPERF .....	20
2.2SERVIQUAL Vs SERVPERF .....	21



2.3 Banking Service .....	22
2.4 Bank History in Ethiopia.....	23
2.5 Customer .....	25
2.6 Customer Loyalty.....	26
2.15 The relationship between Service Quality and Customer Loyalty.....	28
2.16 Conceptual model of the Research.....	30
CHAPTER THREE .....	31
RESEARCH DESIGN AND METHODOLOGY .....	31
3.1 Research Design.....	31
3.2 Data type and Source.....	32
3.3 Target Population .....	32
3.4 Sampling Size.....	32
3.5 Sampling Technique.....	33
3.6 Research Instrument.....	33
3.7 Method of data Analysis .....	33
3.8 Ethical Consideration .....	34
CHAPTER FOUR.....	35
DATA PRESENTATION AND ANALYSIS .....	35
4.1 Introduction .....	35
4.2 Demographic Characteristics of Respondents.....	36
4.3 Analysis of Dependency Test of Demographic Variables and Customer Loyalty .....	40
4.4 Analysis of SERVQUAL Dimension using Descriptive Statistics .....	42
4.4 Binary Logistic Regression Analysis .....	43
4.5 Major Findings from the Data Analysis .....	45
CHAPTER FIVE .....	47
CONCLUSION AND RECOMMENDATIONS .....	47
5.1. Conclusion.....	47
5.2. Recommendations .....	50
REFERENCE.....	53
APPENDIX.....	57

## List of Table

Table 2.1 List of Commercial Banks in Ethiopia .....	24
Table 4.1 The Demographic Characteristics of Respondents and respective chi square test .....	40
Table 4.2 Descriptive statistics of SERVQUAL dimensions.....	42
Table 4.3 Reliability test of the main Variables .....	43
Table 4.4 Binary Logistics Regression result .....	43

## List of Figures

Figure 2.1 The Theoretical Framework of the study .....	30
Figure 4.1 Age and Gender of the Respondents .....	36
Figure 4.2 Educational Status of the Respondents.....	37
Figure 4.3 Marital Status of the respondents.....	38
Figure 4.4 Length of relationship with Wogagen Bank.....	38
Figure 4.5 Type of Account maintained with Wogagen Bank .....	39

## Acronyms

WB	Wogagen Bank
AIB	Awash International Bank S.C
Abay	Abay International Bank
BIB	Berhan International Bank
BOA	Bank of Abyssinia
Buna	Buna International Bank
CBO	Co operative Bank of Oromia
DB	Dashen Bank S.C
EB	Enat Bank
LDT	Loan Delivery Time
LIB	Lion International Bank
NIB	Nib International Bank
OIB	Oromia International Bank S.C
RM	Relationship Manger
UB	United Bank
WB	Wogagen Bank
ZB	Zeman Bank

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The economic liberalization of the financial sector started, in 1991, laid the foundation for the formation and expansion of private banks in Ethiopia (Hansson, 1995). This coupled with rapid technological advancement and improved communication systems, have contributed to the increasing integration and resemblance amongst banks in the financial sector. As a result, banks are now faced with very high and intense competition (Harvey, 2010). Banks operating in Ethiopia are consequently under a lot of pressure due to increases in competition. Various strategies are formulated to retain the customer and the key of it is to increase the service quality level. Service quality is particularly essential in the banking services context because it provides high level of customer satisfaction, and hence it becomes a key to competitive advantage (Almossawi, 2001). In addition, service quality has a significant impact on a bank's success and performance (Mouawad and Kleiner 1996). Nowadays, service quality has received much attention because of its obvious relationship with costs, financial performance, customer satisfaction, and customer retention (Shanka, 2012).

Success of a service provider depends on the high quality relationship which determines customer satisfaction and loyalty. Research has shown repeatedly that service quality influences organizational outcome such as performance superiority, increasing sales and market share, improving customer relations, enhance corporate image and promote customer loyalty Furthermore, service quality and customer satisfaction were found to be

related to customer loyalty through repurchase intentions Delivering quality service to customers is a must for success and survival in today's competitive banking (Lo Liang Kheng, 2010).

Customer loyalty is seen as one of the major facilitators of service quality that emerged from the literature. Customer loyalty happens when there is repeated purchasing by the same customers and their willingness to recommend the product to other customers without any outright benefits and eventually the repeated usages would generate positive and quantifiable financial results. Among the economic benefits of customer loyalty are improvements in retention and increase in market share of a company. Customer loyalty means a customer would return or continue to use the same product or other products of the same organization, make business referrals, and intentionally or even unintentionally providing strong word-of-mouth references and publicity. Loyal customers are those who are not easily swayed by price inducement from competitors, and they usually purchase more than those less loyal customers. On the other hand, service providers must avoid being complacent as retained customers may not always be the satisfied ones and similarly not all satisfied customers may always be retained. There are many factors for such manner of loyal customers. Some customers may remain loyal due to high switching barriers or the lack of real substitutes, while others continue to be loyal because they are satisfied with the services provided. Past researches have pointed out that perceived service quality has an impact on customer loyalty. In their study on retail trade, they discovered a positive relationship between service quality and customer loyalty. Other researchers had found a positive relationship between service quality and

loyalty in the banking sector. All the researchers have unilaterally agreed that service quality is related to behavioral outcomes, especially in the form of word-of-mouth, complaint, recommendation and switching (Al-Rousan, 2010). Service quality is a focused evaluation that reflects the customer's perception of specific dimensions of service: reliability, responsiveness, assurance, Empathy, tangibles. Satisfaction, on other hand, is more inclusive: it is influenced by perceptions of service quality, product quality, and price as well as situational factors and personal factors (Zeithaml & Bitner (2003: 85).

Service quality is one of the critical success factors that influence the competitiveness of an organization. A bank can differentiate itself from competitors by providing high quality service. Service quality is one of the most attractive areas for researchers over the last decade in the retail banking sector (Siddiqi, 2011).

Customer loyalty is a result of customer retention programs that always giving encouragement to remain active choosing their brand as exclusive brand. Customer loyalty is a strategy that creates mutual rewards to benefit firms and customers. With loyalty customers, companies can maximize their profit because loyal customers are willing to purchase more frequently, spend money on trying new products or services, recommend products and services to others, and give companies sincere suggestions (Mughtar R. 2013).

Bank industry is one of service giving industry. The bank products are nearly identical services and they can only differentiate themselves mainly on the basis of their quality

service and also terms and tariffs. Therefore, quality service is a potential and an effective tool that banks can use to gain a strategic advantage in customer retention and at most to survive in today's ever-increasing banking competitive environment.

The banks offered identical and on early growth phase, it carries the danger of creating a downward spiral of perpetual price discounting - fighting for customer share (Menzela, 1999).

### **1.1.1 Company Profile**

Wegagen Bank S.C was established on June 11, 1997. It came into being thanks to 16 visionary founding members who recognized the critical role that financial institutions would play to create a suitable economic development and raised an initial of birr 30 million. As at June 30, 2016 the paid up capital of the Bank reached Birr 1.8 billion. The number of Shareholders is now 2,349.

The vision of the company is to be one of the ten most reputable and competent banks in Africa by the year 2025. And the mission statements of the company includes optimizing the stockholder value through sustainable growth and profitability; provide wide range of innovative and customer focused Banking products and services; boosting operational excellence by employing state-of-the-art information Technology; be the employer of choice by creating conducive working environment wherein employees achieve their career aspiration.



Core values of the company includes Honesty, integrity and loyalty; service Excellency; professionalism; learning and innovation; employee satisfaction; respect and dignity; social responsiveness; good corporate governance and equal employment.

As one of the early established banks in Ethiopia in the era of market economy Wegagen Bank S.co. Expected to expand through delivery of best customer service and satisfaction. As per the existing customer loyalty and company performance there must be some explanation in terms of customer service which in turn affect customer satisfaction which will influence the customers' loyalty. Therefore this research tries to explain the customer service of Wegagen Bank SCo. In terms of loyalty as an outcome of customer satisfaction.

## **1.2 Statement of the Problem**

In today's world of intense competition, a firm's ability to deliver high quality service which results in satisfied customers is the key to a sustainable competitive advantage to service giving organizations (Shemwell et al. 1998). This quality service encourages customers to be loyal to a given firm. Customer satisfaction gained from service quality enormously influences sustainable company's performance and survival (Negi, 2009).

With the availability of goods and services, organizations need proactive strategies to improve service quality, the absence of which can lead to a steady decline of market share which in effect brought its survival to be in question (Collier, 2006). Researchers recommended improving the customer service quality to the degree of greater than expectation of their customer is a cornerstone of an organization's marketing strategy in

order to ensure successful and sustainable business (Asubonteng et al., 1996; Collier, 1991).

Customers have become knowledgeable than ever before and this has gradually led to a greater degree of “consumer sovereignty” (Blanchard & Galloway, 1994), when making a choice.

Customers’ choice of a bank over another may be based on several factors such as the location, interest rates, quality of service delivery and the bank’s reputation. However, service quality is seen as the dominant key factor and thus has got considerable attention by organizations. (Stafford 1996) opines that the financial services, particularly banks, compete in the marketplace with generally undifferentiated products, therefore service quality becomes a primary competitive instrument to win competitors.

As per various researchers like (Voss et al 2004); (Vilares & Coehlo, 2003) and (Van der Weile et al, 2002) providing excellent service quality is widely recognized as a critical business requirement.

Rendering service quality is “not just a corporate offering, but a competitive weapon” that means it is essential to corporate profitability and survival (Newman & Cowling, 2009).

Service quality has become useful in many ways for most organizations, but still the general understanding is that organizations do not accomplish it effectively (Ton Van Der Wigle, 2001). These authors further discussed service quality by quoting (Zemke 1990) finding as “Nothing is as common today as the organizations committed more to lip service than customer service; more interested in advertising than action”. According

to them, “All too many companies seem to consider customers as nothing more than a necessary nuisance. Oh, they may say otherwise, but they don’t deliver. If the road to hell is paved with good intentions, then the road to business failures is littered with placard proclaiming “the customer is always right”.

To improve its services like to recruit, to deliver service quality and to retain customers, Wegagen bank has introduced considerable measures like, investing in advertising, branch networks, credit incentives, attractive interest rates, terms and tariffs among others, all in the interest of enhancing customers satisfaction and yet its customer are also customer of other banks. These all efforts, which were aimed to bring retaining its customer for long, turned out to be as if it has been done for nothing (Merga B 2012).

Exporters’ preferences and expectations seem not to match up with the bank’s initiatives since most of them are not loyal to only this bank. There is continual complaint of from exporters due to insufficient credit availability and service delivery time as promised during marketing, inadequate responsiveness from the staff after marketing, lack of assurance originated from inconsiderable support, inconvenient customer service as the customers contact point is at branch and also at head office in case of this bank and also there is complaints on bank’s failures to avail modern equipment’s and physical facilities.

These states of affairs justify the necessity of confirming whether there is impact on customer’s loyalty if service quality is improved so as to help Wegagen Bank to improve its service quality and to ensure customer retention.

### **1.3 Research Questions**

- Is Tangibles has an effect on customer loyalty of Wegagen Bank S.Co.?
- Is Reliability has an effect on customer loyalty of Wegagen Bank S.Co.?
- Is Responsiveness has an effect on customer loyalty of Wegagen Bank S.Co.?
- Is Empathy has relationship with customer loyalty of Wegagen Bank S.Co.?
- Is Assurance has an effect on customer loyalty of Wegagen Bank S.Co.?

### **1.3 Objectives of the Study**

#### **1.3.1 General Objectives**

The general objective of the study is to investigate whether service quality of Wegagen Bank Share company impact on its customer loyalty.

#### **1.3.2 Specific Objectives**

The specific objectives of the study are:

- To verify whether Tangibles have positive effect on customer loyalty.
- To verify whether Reliability has positive effect on customer loyalty.
- To verify whether Responsiveness has positive effect on customer loyalty.

- To verify whether Empathy has positive and significant relationship with customer loyalty.
- To verify whether Assurance has positive effect on customer loyalty.

#### **1.4 Significance of the Study**

Loyal customers' role in maximizing profit is significant. In addition to profit maximizing, its significance is both economical and non-economical. It has economic benefit because customers' acquisition or replacement cost will be saved, free of charge referrals of new customers from existing customers, which would otherwise be costly in terms of commissions and price premiums as existing customers do not usually wait for promotion. It has also non-economic benefit because feedback from the existing customers will help in improving the service. Therefore, this research will enhance the further understanding of service quality in Wegagen Bank and how it leads to customer loyalty. It will have vital importance for bank management and for future researchers as well. Wegagen Bank managements can also be benefited from this research. Because it provided an important insight in evaluating its service quality dimensions in the eyes of customers of the bank and their degree of loyalty. Beyond that, the study will contribute much for future researchers who desire to conduct research on bank's service quality and customer loyalty.

#### **1.5 Limitations of the Study**

Usually researches suffer from all inherent problems of studies conducted based on survey questionnaires and this study may also face the same fact. Initially, it is hardly

possible to place sufficient questions in the questionnaires to cover each aspects of given subject.

Moreover, the use of questionnaires can also cause biased or incorrect results if an unknowledgeable person fills in the questionnaire. To minimize this problem, however, care is taken by only selecting respondents who reasonably have better understanding. In addition, it may be impracticable to conclude the result of the research to the industry level because the research was based only on the conclusion to be obtained from Wegagen Bank. In addition of technical limitations, the research output may also suffer if the customers under investigation were without interest to actively participate in the research. On top of that Absence of research papers conducted on customers by senior researchers in Ethiopian banking context for immediate reference and lack of time to utilize maximum effort due to other work pressure are some of the limitations.

## **1.6 Organization of the Study**

The final research report is structured in such a way that it can provide coherent flow of ideas. The report is divided into five chapters. The first chapter is introduction, which comprises background of the study, statements of the problem, objective of the study and other related issues. The second chapter is review of related literature, which will present the theoretical framework of the subject matter. The third part presented research design and methodology. The fourth part of the report presented the results and discussions of the study. Finally, based on the result of the study, summary of finding and the recommendation will present in fifth chapter.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITRETURE**

#### **2.1 Theoretical Literature**

The review focuses on the overview of concept of quality, concept of service, service quality, service quality dimensions and characteristics, customer satisfaction, and the role of service quality in ensuring customer loyalty. This chapter will further present service quality concept, and its impact on customer loyalty adopted in this study and explain in detail the constructs of the study.

##### **2.1.1 A definition of Service**

A service is an act, a process and performance. Services are all around as – as a consumer we use services every day.

Several scholars tried to define service in different ways. Kotler and Amstrong (1991) defined service as an activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.

According to the definition of Gronroos (2000), a service is a process that consists of activities which take place in interactions between a customer and people, goods and other physical resources, systems and/or infrastructure representing the service provider and possibly involving other customers, which aim at solving customer's problems.

According to (Christopher Lovelock and Lauren Wright 2011), a Service is an act or performance delivered by one party to another. Through the process of delivering tied to physical product, the performance is invisible and does not result in ownership. This

author also described service as “Something that may be bought and sold, but which cannot be dropped on your foot”.

Service is intangible in nature, it cannot be mass produced. It cannot be inventoried and stored after production. Due to the fact that services and consumers of services are inseparable, they cannot be produced until the consumer is ready to consume them. Providing consistent quality is difficult for service because of the characteristic of variability (Clow and Kurtz, 2003).

According to Zeithaml and Bitner (2004), services include all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced and provides added value in forms (such as convenience, amusement, timeliness, comfort or health) that are essentially intangible concerns of its first purchaser. Lovelock and Wirtz (2007) indicated that, service is “time based” and the outcome of a service may result in desire change in consumer or any property of the consumer.

As observed from the above definitions, service is an interaction between the service provider and the customer. Unlike goods it is intangible, cannot be inventoried or stored, and cannot be produced until the customer is ready to consume it.

### **2.1.2 Characteristics of Service**

In practice, it can be very difficult to distinguish services from goods, for when a good is purchased, an element of service is usually included. Similarly, a service is frequently augmented by a tangible product attached to the service. According to Adrian (1995),



pure services have several distinctive characteristics that differentiate them from goods and have implications for the manner in which they are marketed. These characteristics can be described as follows.

- i. Intangibility:** - a pure service cannot be assessed using any of the physical senses; it is an abstraction which cannot be directly examined before it is purchased. It has no tangible properties that can be used by consumers to verify advertising claims before the purchase is made. The intangible process characteristics that define services, such as reliability, personal care and attentiveness and friendliness of staff, can be verified only when a service has been purchased and consumed.
  
- ii. Inseparability:** - the production and consumption of a tangible good are two quite distinct activities. On the other hand, consumption of a service is said to be inseparable from its means of production. Producer and consumer must interact in order for the benefits of the service to be realized: both must normally meet at a mutually convenient time and place in order that the producer can directly pass on service benefits. In the extreme case of personal care services, like health care service and ATM service, the customer must be present during the entire production process.
  
- iii. Variability:** - refers to the fact that the quality of services depends on who provides them as well as when, where, and how they are provided (Armstrong and Kotler, 2011). For services, variability impacts on customers not just in terms of outcomes but also in terms of processes of production. The latter point causes variability to pose a much greater problem for service than for goods. Because, customers are usually involved in the production process for a service at the same time they consume it, it can be difficult

to carry out monitoring and control to ensure consistent standards. Many service organizations have sought to reduce variability by adopting equipment base production methods such as automation of baking services.

- iv. Perishable:** - services cannot be stored for later sale or use (Armstrong and Kotler, 2011). A producer of cars that is unable to sell all its output in the current period can carry forward stocks to sell in a subsequent period. However, the producer of a service that cannot sell all its output produced in the current period gets no chance to carry it forward for sale in a subsequent period. So, matching time of supply and demand for service is a requirement.
  
- v. Ownership:** - The inability to own services is related to their intangibility and perishability. In purchasing goods, buyers generally acquire title to the goods in question and can subsequently do as they want with them. On the other hand, when a service is performed, no ownership is transferred from the seller to the buyer.

### **2.1.3 Definitions of Service Quality**

Concerning the definition and components of service quality, different scholars developed their own opinions from different angles. In all cases they agreed that service quality is the outcome of comparison between customer's expectation about the service they need and their perception of the way the service actually performed.

Service quality is the overall evaluation of a specific service firm that results from comparing that firm's actual performance with the customer's general or prior expectations of the firms should perform. (Lo. Liaig Kheng, 2010)

Parasuramn, Zeithaml & Berry (1985) described that Service quality is the gap between expectation of universal level service providers' service performance and the actual performance perception of a specific enterprise.

“Providing service quality in excellent manner is widely accepted and practiced as a vital business requirement. It is “not just a corporate offering, but a competitive weapon” which is “important to corporate profitability and survival” (H.Maddern, D.R. (2014)”

Service quality is that the service delivered should fulfill the customers' requirements, expectations and satisfactions (Dr. Jothijay a Krishnan, G. 2014)

According to these scholars in general, service quality is not a one dimensional concept, but it includes a set of factors that evaluate customer about the delivered services.

#### **2.1.4 Service Quality Dimensions**

In view of (Parasuraman et al. 1985) focus group studies, there were ten detail dimensions of service quality .These were: Reliability, Responsiveness, Competence, Access, Curtsey, Communication, Credibility, Security, Understanding the customer and Tangibles. According to them, Reliability is the most significant dimension among others.

**Reliability;** It means that performing as per promises and designated time, just ability to render unfailling and reliable service.

**Responsiveness;** Willingness or readiness of employee to provide service promptly or even setting up appointment quickly, it is all about understanding customer's need, goals or problems.

**Competence;** It is possessions of the required skills and knowledge to perform the promised service; it adds research capability of the organization. It is all about sound judgment and intelligent decisions

**Access;** it involves approachability and easy accessibility, convenient hours of operation and convenient location of service facility. Here in view of these scholars, failure to access is extended waiting or delays, regardless of how it happens, which will cause customers to search for another individual or company who promptly and efficiently solves their problems.

**Courtesy;** in involves politeness, respect, consideration and friendliness of contact personnel. It includes respect for property, not just customers' only but also of organization. This means treating products, merchandise, samples, display areas and support materials of the organization as prized possessions. If customers sense you don't care about your things, they begin to wonder how you'll treat them and their things.

**Communication;** it means keeping customers informed in language they can understand as information is valuable to customers and listening to them.

**Credibility;** involves trustworthiness, believability, honesty. It involves having the customers' best interest at heart. It may take years to develop reputation, but only seconds to lose it. To achieve the desired results and goals, first, helping customers achieve theirs.

**Security;** is the freedom from danger, risk or doubt, it involves physically safe, financially secure and confidential. It is providing customers with a comfort zone or peace of mind since they want to maximize gain and minimize or eliminate loss.

**Understanding / knowing the customer;** it means making an effort to understand the customer's needs / specific requirements providing attention individually. It is recognizing and acknowledging by name regular, loyal and repeat customers.

**Tangibles;** it includes the physical evidence of the service, physical facilities, promotional materials and personnel appearance. Here these “stuff” matters.

In their next research these scholars examine & purify the content of the items and making up each of SERVQUALS five dimensions (three original and two combined dimensions) suggested the following labels and concise definitions for the dimensions:

- Tangibles,
- Reliability,
- Responsiveness,
- Assurance
- Empathy

The last two dimensions (assurance & empathy) contain items representing seven original dimensions i.e. communications, credibility, security, competence, courtesy, understanding /knowing customers and access. Therefore, according to these scholars, while SERVQUAL has only five distinct dimensions, they capture facets of all ten originally conceptualized dimensions.

### **2.1.5 Quality**

According to scholars' opinions, quality is “Zero defects, doing it right the first time”.

(Crosby 1979) defines quality as “conformance to requirements” (Garvin 1983) measures quality by counting the event of “internal” failures (those observed before a product leaves the factory) and “external” failures (those incurred in the field after a unit has been installed)

### **2.1.6 Emerging Quality Description**

During earlier times, while many manufacturing systems and the aim to meet the expectations of the customers in organizations are considered as important to improve, quality was described as a “little q” which meant product quality. With the emerging of service emerged along with these industries and labeled as big Q (Smith, 1994). Table 2:1 the new quality thinking

### **2.1.7 SERVQUAL**

During the growth of services in the last decades, many scholars have agreed the need to develop measures of service quality. One of the most frequently used measures is the SERVQUAL (the name stands for Service Quality).

The foundation for the SERVQUAL scale is the gap model proposed by (Parasuraman, Zeithaml and Berry 1985, 1988). They held that when perceived service is less than expected service, the obvious implication is that service quality is more than satisfactory. But, when perceived or experienced service is less than expected service, it implies less than satisfactory service quality.

On their empirical research, they identified a set of 22 variables tapping five different dimensions namely Tangibles, Reliability, Responsiveness, Assurance & Empathy of

service quality construct. From the time when they originated, service quality as being a gap between customer's expectations and perceptions.

According to them, service quality measurement scale is comprised of a total of 44 items (22 for expectations and 22 for perceptions). Customers' responses to their expectations and perceptions are obtained on a 7-point Likert scale and are compared to arrive at (P-E) gap scores. The higher (more positive) the perception minus expectation score, the higher is perceived to be the level of service quality

### **2.1.8 Critiques of SERVQUAL**

The first article on SERVQUAL which introduces the SERUQUAL scale was authorized by A. Parasuraman, V. Zeithmal and L.L Berry in 1988. Since then, it has been attacked and criticized on various parameters. These critics have noted that SERVQUAL's five demonisms /Reliability, Assurance, Tangibles, Empathy and Responsiveness/ are not universal and the Model fails to draw on established, economic statistical and psychological theory. Mainly, the criticisms are on the object of measurements, length of questionnaire, timing of questionnaire, and administration use of LIKERT scales, use of P-E difference score, generalization of service quality demonisms and static nature of the model. It was also criticized that it was not clear whether SERVQUAL measures service quality or customer satisfaction. Suggestions given were that certain items can be eliminated or fusion of interrelated dimension likes reliability, responsiveness and assurance into one dimension of task related. The issue of whether it is appropriate to use a 5 points or 7 point LIKERT scale was also exposed to criticism.

On the other hand, many other Authors have rebuked all criticisms against SERVQUAL and or various conceptual and operational criterion upheld SERVQUAL as a rigorous tool, appropriate and perfect. Advances made in service quality measurement have validated SERVQUAL. It was recommended as an instrument for improving service quality, organizational performance and customer satisfaction is not in private sector but also in public services. The scale has proved to be most versatile and adaptable with applicability across diverse service industries in various countries (Raghunanandan 2012).

### **2.1.9 SERVPERF**

SERVPERF was developed by Cronin and Taylor in 1992. They developed this instrument to simplify the measurement of service quality and customer satisfaction. It contains the same dimensions used in the SERVQUAL model. They developed this model to study four service sectors: banking, pest control, dry cleaning, and fast food.

It is based upon the performance theory and is a modification of the SERVQUAL model. The only difference between SERVQUAL and SERVPERF is that the SERVPERF does not consider customer expectations. It brings into consideration only customer perceptions of service performance. Therefore, this model does not have a disconfirmation scale, which is the gap between expectations and perceived performance of service. It has only one part, which is the perceived performance of service. In this instrument, customers rate their perceptions of performance of the same attributes that are covered in the SERVQUAL model. The five dimensions, i.e. Tangibles, reliability,



responsiveness, assurance and empathy—identified in the SERVQUAL model are equally applicable to the SERVPREF model.

According to these scholars, SERVPREF can provide managers with a summary of overall service quality score, which can then be plotted in relation to time and specific customer segmentations related to consumer characteristics. The SERVPREF scale thus provides a useful tool for measuring the overall service quality attitudes of service managers. However, they suggest that great care should be exercised by managers of service organizations in attempting to derive more specific information from data captured by the SERVPREF scale for strategic decision making (Cronin & Taylor 1994).

## **2.2SERVIQUAL Vs SERVPERF**

Though many scholars supported the SERVQUAL, the use of gap scores has been opposed. Among them (Cronin and Taylor 1992) recommended using “SERVPERF” -a modified SERVQUAL instrument to measure service quality. According to them, instead of measuring both customer expectations and perceptions as in the case of SERVQUAL, the SERVPERF was practiced by only one part of the perceived performance on the differently labeled 7-point scale. The expectation does not exist in the SERVPERF and did not review the gap scores between expectation and perception. As a result, only 22 items will be remained when measurement of customer expectation is excluded. These scholars concluded the superiority of SERVPERF over the SERVQUAL for service quality measurement.

Later on in 1994, the SERVQUAL developers maintained on the superiority of their measurement and criticized the use of the SERVPERF for practical issues. The claim

made by critics about the practitioners preferring simpler measurement of perceived quality through only the performance of the business was opposed by their argument that a widespread preference did not necessarily support their claim of superiority (Parasuraman et al., 1994). They emphasized the practical values of the SERVQUAL for generating rich and meaningful information and as an analytical tool to cut off the weak points of service quality.

Again, (Cronin and Taylor 1994) defended that the SERVPERF can also provide practical values to managers. They suspected that the performance-based measure of service quality could offer a longitudinal index of the service quality perceptions, relative to time and customer subgroups. Finally their thoughts did not commit them to remain supportive to the SERVQUAL, yet remained confident of their SERVPERF (Hussien 2012).

On the other hand, as per the study conducted by (Quester and Romaniuk 1997) and (Angur, Natarajan, and Jahera 1999) and cited in (Yeamdao Narangajavana 2007), both models were found to have insignificant differences in their performance of prediction.

### **2.3 Banking Service**

Basically banking is a profit making and service giving business that is formed to accept a deposit from the surplus units and channel it to the deficit units of the economy in the form of loans. This task makes banks one of the most important financial intermediaries in every economy of every country.

It is a customer oriented service giving industry. Banks highly depend on customer service for their survival in the market. According to (Chowdhury 2014), customer is the

center of attention and customer service is the differentiating factor. He further argues that banks have to serve their customer carefully because of the existence of other competitive banks.

On the other hand (Guo et al, 2008) recommended that in the dynamism of banking industry in this 21<sup>st</sup> century, they had to have distinct identity to provide excellent service. As per their recommendation, banks of these days have to be of world class standard, committed to excellence in customer service and have to play a vital role in the ever growing and diversified of this sector. Here, they wanted to explore that today's customers are of global customer.

## **2.4 Bank History in Ethiopia**

As per the agreement reached in 1905 between Emperor Minilik II and Mr. Ma Gillivaray, representative of the British owned National Bank of Egypt, the first modern bank called Bank of Abyssinia was introduced and inaugurated in Feb 16, 1906 by the Emperor. The bank was managed by the Egyptian National Bank. During that time, the Ethiopian government promised not to allow any bank to be established in the country within the coming 50 year concession period.

In short period of its existence, Bank of Abyssinia had been carrying out limited business such as keeping government accounts, some export financing and undertaking various tasks for the government. In 1931 Bank of Abyssinia was legally replaced by Bank of Ethiopia shortly after Emperor Hailesilassie came to power. Bank of Ethiopia was a purely Ethiopian institution and was the first indigenous bank in Africa.

In 1963 the function of commercial activity was separated and Commercial Bank of Ethiopia was formed.

The first privately owned bank, Addis Ababa Bank S.C was established and started operation in 1964. There were two other Banks in operation namely Banco di Roma and Bank O di Napolis S.C.

Following the declaration of socialism in 1974, the government extended its control over the whole economy and the private owned banks were merged and formed a bank called Addis Bank. Then in 1980 both Commercial Bank of Ethiopia and Addis were merged. In 1970 Agricultural and Industrial Development Bank was established.

Following the downfall of the Dengue regime, legal basis for investment in the banking sector was laid down. Then after, the following private Banks come to operation.

Table 2.1 List of Commercial Banks in Ethiopia

<b>S.no</b>	<b>Bank Name</b>	<b>Year Established</b>
<b>1</b>	Development Bank Of Ethiopia	1909
<b>2</b>	Commercial Bank Of Ethiopia	1963
<b>3</b>	Awash Bank	1994
<b>4</b>	Bank Of Abyssinia	1996
<b>5</b>	Wegagen Bank	1997
<b>6</b>	United Bank	1998
<b>7</b>	Nib International	1999
<b>8</b>	Dashen Bank	2003

<b>9</b>	Cooperative Bank Of Oromia	2005
<b>10</b>	Lion International Bank	2006
<b>12</b>	Oromia International Bank	2008
<b>11</b>	Bunna International Bank	2009
<b>13</b>	Zemen Bank	2009
<b>14</b>	Abay Bank	2010
<b>15</b>	Berhan International Bank	2010
<b>16</b>	Addis International Bank	2011
<b>17</b>	Dehub Global Bank	2012
<b>18</b>	Enat Bank	2013

Source: National Bank of Ethiopia, Annual Report of 2017

## **2.5 Customer**

A customer is anyone who receives products or services; customer can be internal or external to the organization and are the foundation of any business (Salas 2006).

Kotler (2003) also defines customers as a person or organization that buys a product or service either for use or resale. According to (Donna Eart 2004), there are two types of customers. They are external customer and internal customer.

1. External customer; this is someone who signs a check, pays our employees, and ultimately makes our pay check possible. External customers have choice, and if they don't like your product or service they can take their business elsewhere. A customer who suffers through a negative experience with a business, such as being treated

impolitely by an employee, can also hinder a business by dissuading others from patronizing it.

2. An internal customer or internal service provider can be anyone in the organization. They are co-worker from each department unlike external customer.

These internal customers don't have choice. While internal customers may not necessarily purchase the products or services offered by their employer, the internal customer relationship also plays a dominant role in the business's success. For example, the front line staffs who do not work well with customer service may have greater complexity placing orders or obtaining answers to his external clients' questions, consequentially in a poor level of service. Stressed internal relationships can also adversely influence company morale.

Varey, R.J (2002) also described customer as “not producers, not citizens but ‘us’ brought to life in our everyday talk.

## **2.6 Customer Loyalty**

Customer loyalty is the most precious intangible assets of modern business organization. In fact only high loyalty is not the key of business organization competition to win but also the major guarantee of business organization stability and in effect the main target profitability (Tang, 2014). These researchers further argue that, in the era of service economy, improving service quality always considered as one of the most effective to build customer loyalty.

But (Mattila, J.W. 2003) argues that loyalty is an effective risk reduction strategy. Especially when switching cost and risk associated with that product or service are high,

loyalty increases. They also further argues that loyalty is from objective knowledge. On the other hand, there are scholars who relate loyalty with pricing.

Prrie, (2006) explained loyalty as “By improving service quality that is relevant to the market, the company will have potential to develop a loyal customer base which is a worthwhile goal. For one thing, it usually results in greater profits”

They agreed that customer loyalty as a prime determinant of long term financial performance of service firms where developed loyalty can significantly improve profit.

Richards varay (2002) also explained that customer loyalty and retention is the new.

The author further explained customer loyalty as “Customer loyalty is the name of the game and loyal customer will be behind tomorrow’s profitable companies”

The findings of Berry and Parasuraman, 1991 supported the hypothesis that loyalty is influenced by service quality. There is however, a difference between loyal customer and who simply retained rather than expressing loyalty. Most of the time, true loyal customers are known as being fewer prices sensitive when compared to retained customers. They increase frequency of repurchase. They are advocators of a given Organization. They can influence their family or peers. According to these scholars, therefore, customer loyalty is distinct from customer retention. Loyalty is only a valid concept to them in situations where customers can choose other providers.

In their researches, (Josee Bloemer, K, D. 1998) concluded that, customer loyalty of many banks, as service giving organizations; it will increase by introducing innovative products and services. They also relate customer loyalty as an expression of intended behavior to the product or service or to the company. Jothijalyatrishnan & G. (2014)

also relates customer loyalty as an expression of intended behavior to the product or service or to the company. They also further explained customer loyalty as comprised of both customers' attitudes and behaviors.

Customers' attitudinal component represents opinions like willing to repurchase or purchasing another product or services from same company, willingness of advertising to others through word of mouth, showing commitment not to easily switch to other similar service provider and willingness to buy at a premium price. On the other hand a behavioral aspect of customer loyalty represents actual repurchase, purchasing more and different product or service from same company and as a result being customer for life.

In general customer loyalty is the ultimate goal of any service organization (Kiran, 2011)

## **2.15 The relationship between Service Quality and Customer Loyalty**

The relationship between service quality and customer Loyalty has been vastly researched in various service settings. Previous research has shown that service quality directly affects customer loyalty (Kiran K.a 2011). Other scholars have reported that service quality has an indirect effect on loyalty, mainly via customer satisfaction as a mediating variable (Collier and Beinstock 2006; Cristobal; Flavian and Guinaliu 2007). Meanwhile, (Agyapong, 2011) concluded that perceived service quality is necessary but not adequate situation for customer loyalty. In the era of service economy, improving service quality has always been considered as one of the effective ways to improve customer loyalty. (Tang, Y.D. (2014). According to these researchers, to a large extent, service quality can affect customer loyalty to the enterprise.



Also, previous researches have confirmed that the relationship between perceived quality and customer loyalty exists and is positive (Bernard Adoyu, 2012). According to (Dr. Jolhijayakrishnan, G. 2014) findings too, service quality dimensions such as tangibility, reliability, responsiveness, assurance and empathy are positively related with customer loyalty. As discussed under the loyalty title, loyalty is an intention to repurchase and willingness to recommend to others. According to studies done by (Cronin and Taylor 1992), service quality did not appear to have significant (positive) effect on repurchase intentions. Whereas (Boulding et al. 1993) found positive relationship between service qualities and repurchase intentions and willingness to recommend.

On top of that, according to the meta-analysis conducted by (Carrillat et al. 2009) and cited by (Bourlessab, 2013) service quality impacts purchase intentions and thus customers' loyalty in a direct as well as in an indirect way through satisfaction. Additionally, as cited by this researcher, in the context of banking services, (Bloemer et al. 1998) discovered that reliability and efficiency of a service have impact on the level of customers' loyalty. In the same way, (Kheng et al. 2010) investigated a direct positive link between service quality factors such as reliability, empathy and assurance and customer loyalty. Nevertheless, as cited by (Bourlessab, 2013) and found by (Bloemer et al. 1999), the relationship between service quality and loyalty is unclear and needs further investigation.

Hence, the present study examines the impact of Oromia International Bank service quality factors (i.e. Tangibles, Reliability, Responsiveness, and Assurance & Empathy) on its export customers' loyalty.

## 2.16 Conceptual model of the Research

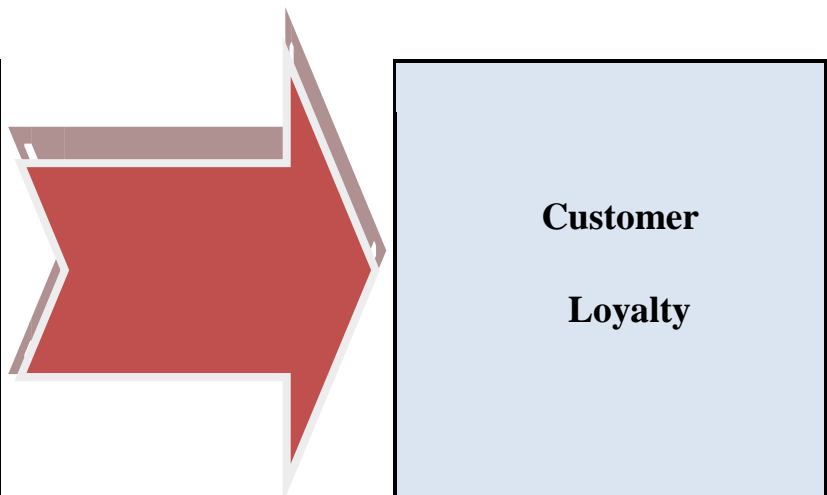
The following conceptual model has been developed based on literature review findings used in this research.

Figure 2.1: The theoretical framework of the study.

### Independent Variables

<b>S</b>	<b>Tangibility</b>
<b>E</b>	
<b>R</b>	<b>Reliability</b>
<b>V</b>	
<b>P</b>	<b>Responsiveness</b>
<b>E</b>	
<b>R</b>	<b>Assurance</b>
	<b>Empathy</b>

### Dependent Variable



<b>F</b>	
----------	--

Source: Parasuraman et al., 1988

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 Research Design**

The overall research design of this study is descriptive research design. In order to achieve the study objectives and to test the affirmed hypothesis, descriptive statistical tools such as frequency, percentage and mean scores was use with Chi square test to identify association of demographic factors and loyalty. Binary logistics regression analysis was used to explain the effect of service quality dimensions on customer loyalty.

### 3.2 Data type and Source

The study was used both primary and secondary data. The primary data was collected from customers of the Bank in Addis Ababa city branches. To investigate the study, Self-administered questionnaire, on a five-point Likert-type scale was used is ranging from “strongly disagree” (1) to “strongly agree” (5), representing the five SERVQUAL dimensions is employed. In addition secondary sources such as bank annual bulletin, internet, various journals and articles was explored to understand the association between service quality and customer loyalty.

### 3.3 Target Population

The target population of the study was customers of Wegagen Bank S.co. The study was focused on capital city because a high number of customers are situated in it.

### 3.4 Sampling Size

The sample size for the study is determined using the formula developed by Taro Yamane (1967).

$$n = \frac{N}{1 + N(e)^2} = \frac{100,000}{1 + 100,000 (0.05)^2} = 398.406$$

Where, n - is the sample size

N - is the population size,

e - is the level of precision or sampling error = (0.05)

Having 10 branches to be selected out of 77 main city branches of Wegagen Bank S.Co. Considering to have an average of 10,000 customers on every branch, added up to give 100,000 customers. So N = 100,000

### 3.5 Sampling Technique

Since the researcher is the customer of this bank and the number of customers of the bank is numerous (in average 10,000 customers per branch in Addis Ababa), sampling must be used. Convenience sampling method was used to collection data from customers of selected 10 main branches of the bank.

### 3.6 Research Instrument

A questionnaire is used by the researcher to collect the primary data. The questionnaire is of structured type. A structured questionnaire is used to increase the credibility of information that is provided by the respondents. In this approach the investigator first checked whether the respondents used the bank service for at least one year. The instrument was adopted from Andaleeb and Conway, (2006).

### 3.7 Method of data Analysis

The data was analyzed with the help of SPSS 22 that helps to tabulate and analyze the valid responses. The data that are gathered through primary and secondary sources was summarized using descriptive statistics, Chi square test and Binary logistic regression having dependent variable of loyalty (binary, yes or No) and independent variables five SERVEQUAL dimensions (ordinal level, five level Likert scale).

The Binary Logistic Regression model can be formulated as

$$P(Y) = \frac{e^{b_0 + b_1x_1 + b_2x_2 + \dots + b_nx_n}}{1 + e^{b_0 + b_1x_1 + b_2x_2 + \dots + b_nx_n}}$$

Where by:

$P$  is the probability of  $Y$  (loyalty occurring) 1= loyal, 0= not loyal

$e$  is natural logarithm base

$b_0$  is interception at y-axis

$b_1$  is line gradient

$b_n$  is regression coefficient of  $x_n$

$x_1$  is predictor variable (SERVQUAL dimensions)

So, the SERVQUAL dimensions (independent variables) predict the probability of loyalty occurrence of the banks customers.

### **3.8 Ethical Consideration**

The data collected from the customers are intended only was used for academic purpose and specifically for the consumption of this research; and was provided to anybody that intends to use beyond this study. Questionnaire was distributed in a sealed envelope and through emails. The researcher was clarify the questions only when requested. Other than this, the researcher was not influence the response of any customer. By doing so, this research was concluded without losing its validity.

### **3.9 Validity and Reliability Test**

Validity of data in terms of content and face validities are tested using physical checking and employing software test of validity of the data collected using questionnaires. When it comes to reliability the data collected is tested using cronbach's alpha which test the level of the association of variables included in the questionnaire with the of dependent variables.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

This chapter focuses on the analysis of the data gathered from the 301 respondent, customers of Wegagen Bank S.Co. The data is presented in tables, charts and diagram and the result are critically analyzed and interpreted.

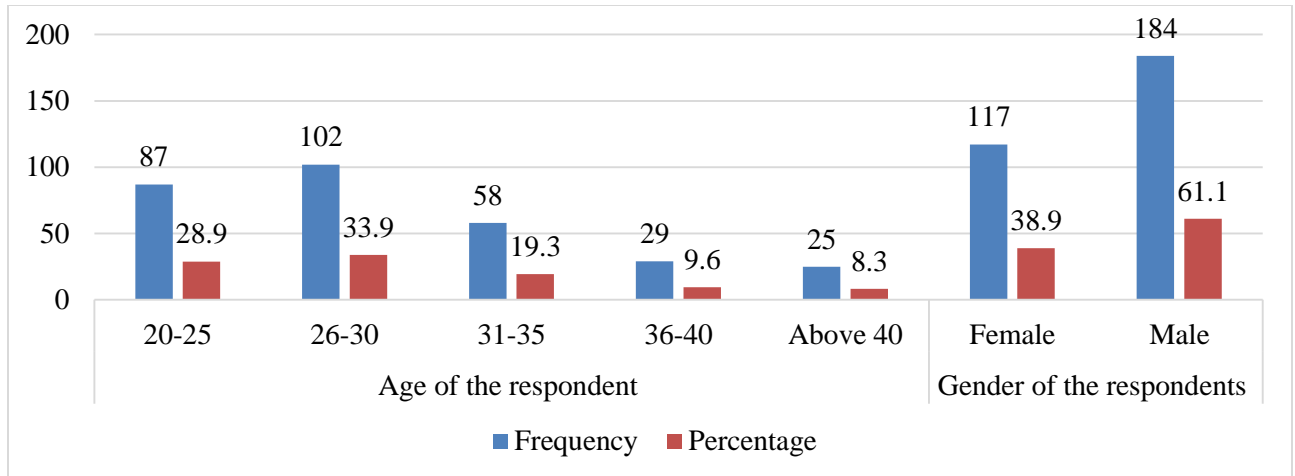
At the outset, the questionnaire was planned to distribute to 398 customers of Wegagen Bank S.Co. as per the sample size described in the methodology part and since the customers under investigation are having high number of nonresponse rate (22.6%) , i.e., 77.4% of the expected questionnaires were collected back and used for analysis purpose. The analysis of the study is conducted using descriptive statistics, checking the dependence level of demographic variable and dependent variable (customer loyalty) and Binary Logistic Regression of loyalty and SERVQUAL dimensions.

## **4.2 Demographic Characteristics of Respondents**

This section is designed to discuss the general demographic characteristics of respondents which were presented in the first part of the questionnaire.

Figure 4.1 Age and Gender of Respondents

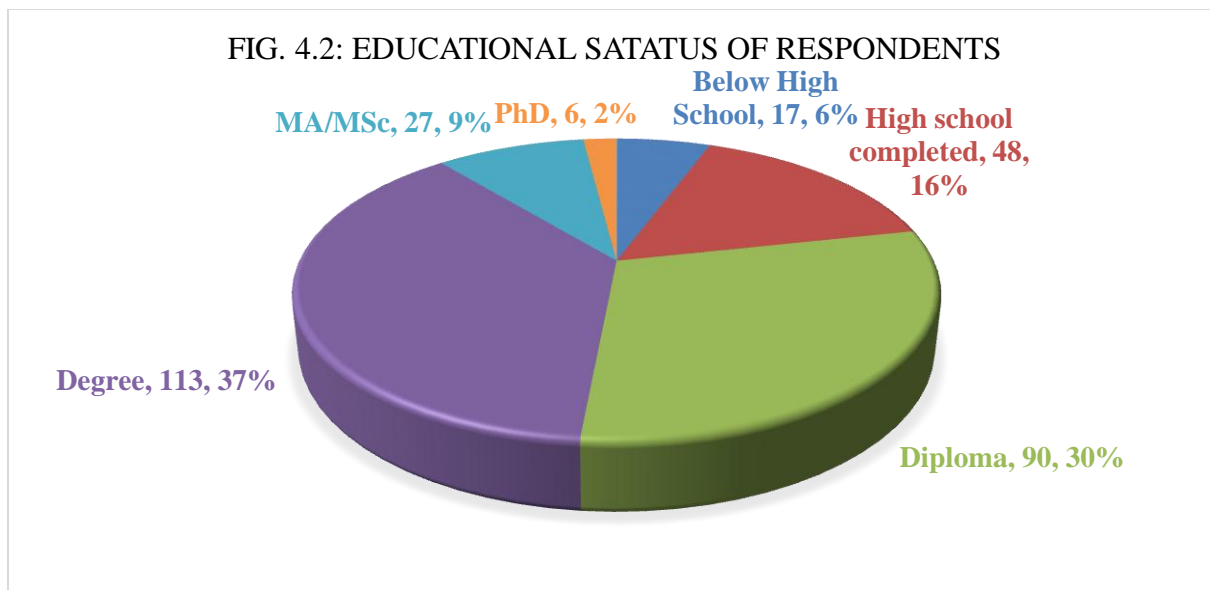




**Source:** Survey Result (2018)

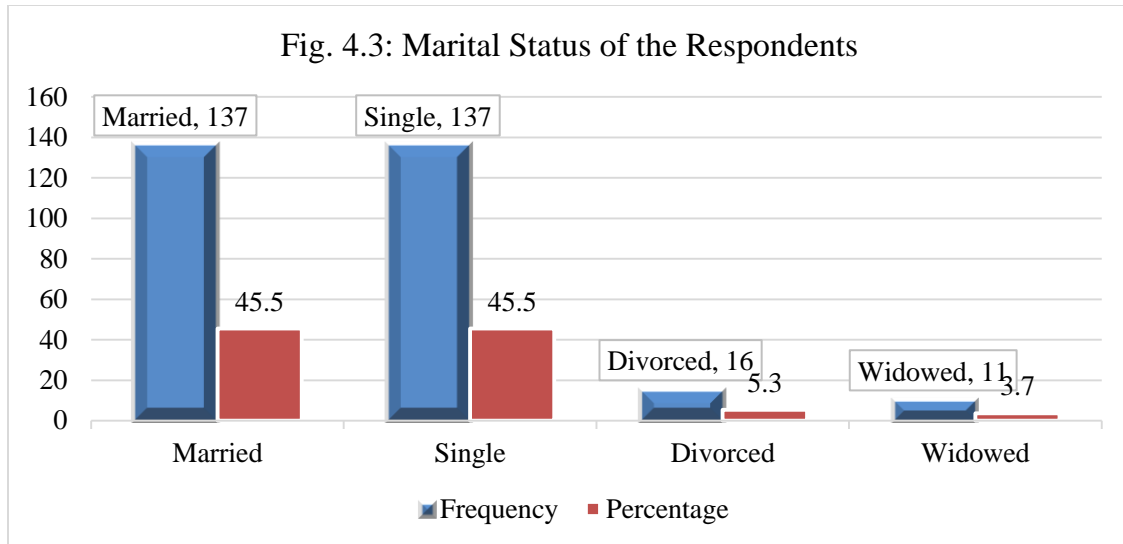
As indicated in the above figure 4.1, among the total respondents, a 33.9 percent of the respondents fall in the age bracket of above 26-30 years. The rest of the respondents constitute 28.9 percent; a 19.3 percent, 9.6 percent and 8.3 percent represent in the age bracket of 20 -25, 31-35, 36-40 and above 40 years respectively. From this survey it is observed that most of the respondents represent in the age bracket of 26 -30 years.

As indicated in the above figure 4.1 regarding the gender of the respondents, the researcher notes that, out of the total respondents, males dominate by 61.1 percent while the female respondents constitute 38.9 percent.



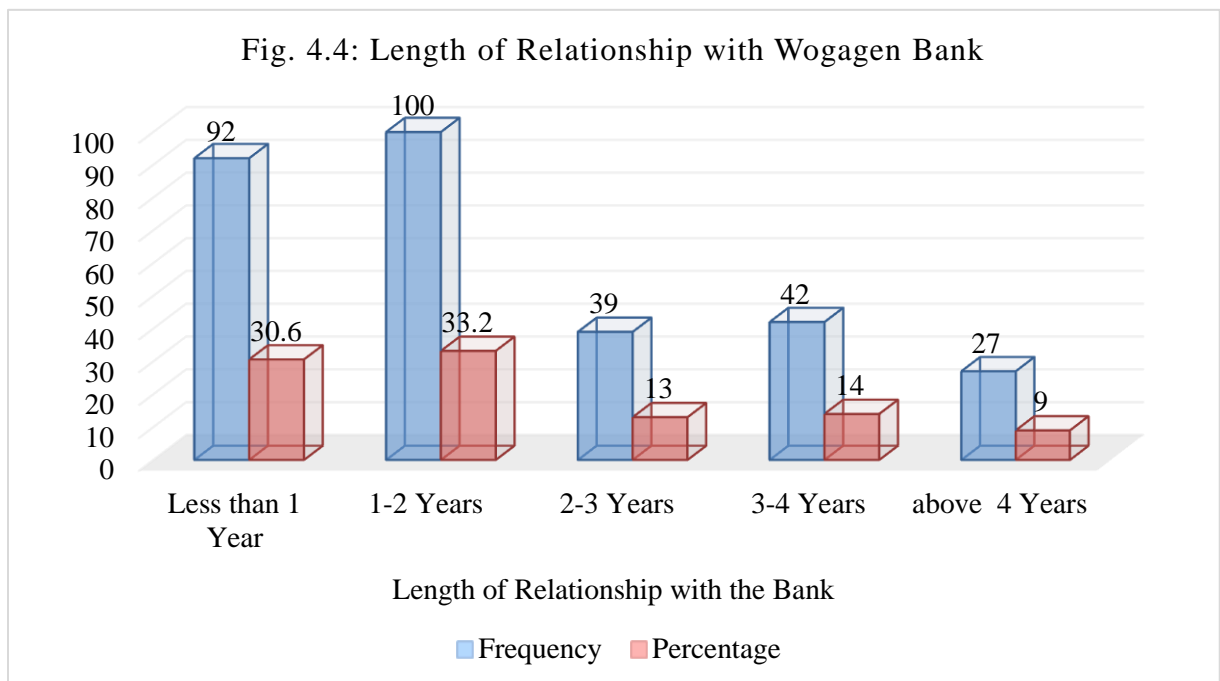
**Source:** Survey Result (2018)

As it is indicated in the Figure 4.2 above regarding educational level of the respondents one can see that the educational level of most of the respondents is at the degree level with the percentage position of 37.5 (113) followed by diploma level with the percentage position of 29.9 the remaining are high school completed, masters, Below High School and PhD with 15.9 percent, 9 percent 5.6 percent and 2 percent respectively. This indicates that most of the respondents are educated with a degree level and can be categorized as professional respondents.



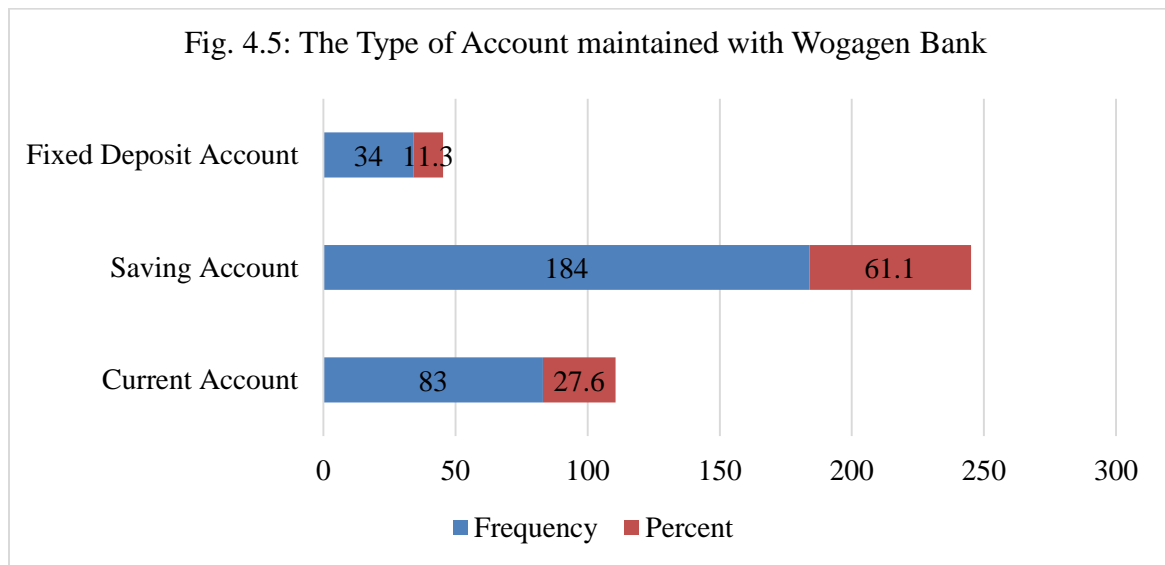
**Source:** Survey Result (2018)

From the above Fig. 4.3 the researcher noted that of the respondents, majority of them were equally dominated by married and single respondents by 45.5 percent followed by 5.3 percent and 3.7 percent divorced and widowed respectively.



**Source:** Survey Result (2018)

As indicated in the Fig 4.4 the respondents' length of relationship with Wogagen Bank shows that most of the respondents 33.2 percent 1-2 years followed by 30.3 percent less than one year the rest 13 percent, 14 percent and 9 percent having 3-4 years, 2-3 years and above 4 years respectively.



**Source:** Survey Result (2018)

As it can be seen from the above Fig 4.5 outall of the respondents 61.1 percent maintained saving account and followed by 27.6 percent and 11.3 percent who maintained current account and fixed deposit account with Wegagen Bank respectively.

### 4.3 Analysis of Dependency Test of Demographic Variables and Customer Loyalty

In the case of the dependency test of the demographic variable with the main dependent variable, customer loyalty, the researcher used chi square test indicated in the table 4.1. Below Chi square test shows that the marital status and length of relationship with the

bank are significantly dependent on the customer loyalty at the significance level of 95 percent. Age of the respondents, gender of the respondents and type of account maintained with the bank are associated with loyalty of the customer with the significance level of 80 percent.

Table 4.1 the Demographic Characteristics of Respondents and Their Respective Chi Square

S.No.	Question Items	Frequency	Percent	Chi square Test	
1.	<b>Age of the respondent</b>	20-25	87	28.9	6.947 (0.12)
		26-30	102	33.9	
		31-35	58	19.3	
		36-40	29	9.6	
		Above 40	25	8.3	
2.	<b>Gender of the respondents</b>	Female	117	38.9	2.476 (0.12)
		Male	184	61.1	
3.	<b>Educational Level of the respondents</b>	Below High School	17	5.6	7.180 (0.21)
		Highschool completed	48	15.9	
		Diploma	90	29.9	
		Degree	113	37.5	
		MA/MSc	27	9.0	
		PhD	6	2.0	
4.	<b>Marital Status of the respondents</b>	Married	137	45.5	35.208 (0.00)
		Single	137	45.5	
		Divorced	16	5.3	
		Widowed	11	3.7	
5.	<b>Length of Relationship with the Bank</b>	Less than 1 Year	92	30.6	300 (0.00)
		1-2 Years	100	33.2	
		2-3 Years	39	13.0	
		3-4 Years	42	14.0	
		above 4 Years	27	9.0	
6.	<b>Type of Account maintained with WB</b>	Current Account	83	27.6	3.465 (0.18)
		Saving Account	184	61.1	
		Fixed Deposit Account	34	11.3	
7.	<b>Types of service avail with other banks</b>	Credit	11	3.7	5.488 (0.36)
		International banking service	129	42.9	
		Electronics Banking	82	27.2	
		Credit/Profit Sharing	29	9.6	
		Guarantee	8	2.7	
		Others	31	10.3	

**Source:** Survey Result (2018)

#### **4.4 Analysis of SERVQUAL Dimension using Descriptive Statistics**

SERVQUAL dimension are the five main variables to measures the levels of customer satisfaction in the service industry. The level of satisfaction which is one of the independent variable of this research can easily be explained prior to the main research objective achievement to help the readers understanding.

According to table 4.2 below all the dimensions in the SERVQUAL are more than the average of 3 where by our measurement was done using five level Likert scale with minimum of 3.87 by reliability dimension and maximum of 4.07 by tangibility with assurance scoring average of 4.06 responsiveness and empathy scored of 3.95. When Standard deviation is observed it has maximum of 0.584 by responsiveness and minimum of 0.502 by reliability while the rest scored 0.528, 0.525, 0.512 by tangibility, assurance and empathy respectively. From this we can conclude that tangibility and assurance are the two dimensions better in comparison to the rest of the SERVQUAL dimensions. Even if reliability scored the lowest average in comparison to others its standard deviation is also low.

**Table 4.2 Descriptive Statistics of SERVQUAL Dimensions**

S.No.	Items	N	Mean	Standard Deviation
1.	Average of Reliability	301	3.87	.502
2.	Average of Assurance	301	4.06	.525
3.	Average of Responsiveness	301	3.95	.584
4.	Average of Empathy	301	3.95	.512
5.	Average of Tangibility	300	4.07	.528

**Source:** Survey Result (2018)

#### **4.4 Binary Logistic Regression Analysis**

The reliability of the data collected on the main questions regarding service quality in SERVQUAL model is in relation to loyalty indicates 83.7 percent reliable based on cronbach's alpha for all the 22 questions, based on table 4.3, used to measure the five dimensions of SERVQUAL. But in the case of the average of the five SERVQUAL dimensions reliability reduce to 82.4 percent using the same measurement. The researcher decided to use the average of the five SERVEQUAL dimensions because of the insignificant difference in the reliability of the two methods, i.e., averaging the SERVQUAL dimensions from the specific questions used to measure them and the specific questions (22 questions) as they are.

**Table 4.3 Reliability Statistics of Main variables**

S.No.	Cronbach's Alpha	N of Items
1.	.837	22
2.	.824	5

Source: Survey Result (2018)

**Table 4.4 Binary Logistics Regression**

**Hosmer and Lemeshow Test**

Step	Chi-square	df	Sig.
1	8.529	8	.384

S. No.	Variables in the equation	B	S.E.	Wald	Sig.
1.	Average of Reliability	.729	.309	5.569	.018
2.	Average of Assurance	.070	.323	.047	.829
3.	Average of Responsiveness	-.351	.293	1.436	.231
4.	Average of Empathy	-.683	.367	3.467	.063
5.	Average of Tangibility	1.153	.357	10.413	.001
6.	Constant	-2.862	1.307	4.793	.029

Source: Survey Result (2018)

The overall chi square test of the model shows a higher level which indicates there is independence of the variables even if the significance level is almost 60%. Based on the result of the binary logistics regression customer loyalty as dependent variable and the



five SERVEQUAL dimensions as independent variable, reliability and tangibility influence significantly in 95% significance level the customer loyalty positively with coefficient and significance of 0.729 (0.018) and 1.153 (0.001) respectively. Empathy is negatively influencing by -0.683 coefficient in a significance level of 0.063, at the level of significance of 90%.

#### **4.5 Major Findings from the Data Analysis**

In this part major findings of the research based on the data analyzed and method used to analyze presents.

- The researcher found out that most of the respondents participated in this research are Male (61.1%), age between 20-30 years (62.8%), holds Diploma (TVET) and Degree (67.4%), married and single (91%) and having two years and less length of relationship with Wegagen Bank (63.8%).
- In the other case most of the respondents are having saving account (61.1%) maintained in the Wegagen Bank and go to other banks to find service related to international banking (42.9%).
- From all the respondents demographic factors only marital status (35.108 Chi square) and length of relationship the respondent has with Wegagen Bank (300 Chi square) are significantly associated with the loyalty of the customer.
- Except for tangibility as SERVQUAL dimension almost all the other dimensions scored more than 3.5 average out of the five level Likert scale (5 as maximum score) and reliability the least of all and tangibility as the largest of all.

- Based on the binary logistics regression result reliability and tangibility from the five SERVQUAL dimensions are significantly (95%) affecting the loyalty of customers of Wegagen Bank. While empathy negatively affect the loyalty of the customers at the significance level of 90%.

## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATIONS

The results of this study proved that there is a problem in connection with Wegagen Bank service quality towards customer loyalty. The effect of one on other is also revealed in the findings. As the major objective of this research was to assess the impact of service quality on customer loyalty, the findings showed us all dimensions have positive impacts except responsiveness and empathy, and in effect it inferred the importance of high effort in improving these areas of service.

#### 5.1. Conclusion

The following conclusions were drawn from the findings of the study.

To fulfill the objectives of the research, customers with different demographic profile were invited in providing detail information. Accordingly, the majority of respondent were males accounting for 61.1 percent of the total respondents. Most of these exporters are less than 36 year old with 82.1 percent of the total. This shows that customers of Wegagen Bank are mostly made up of youth males. Regarding the educational level of these respondents, 78.4 percent of them are above Diploma level and from it can be concluded that in most of WOGAGEN BANK customers are compose of professionals.

The next and much associated with the objective of this study is relationship duration of customers with WOGAGEN BANK. The bank is more than 20 years since its establishment and as per this study, only 9 percent of them stayed greater than 4 years and above with this bank. The rest 14 percent stayed from 3-4 years, 13 percent from 2-3 years, 33.2 percent from 1-2 years and 30.6 percent for less than one year. From this

finding one can observe that as the age of the bank increases, the number of customers stay (loyalty) with the bank age equivalently reduces. The other indicative findings and become points of discussion and highly associated with the objective of this study is that all customers under discussion have relationship with other competing banks. It is an opportunity to Wegagen bank to evaluate and compare service quality of other competing banks and change to better server of the need of the customers. In relation to this about 42.9 percent of the customers have international banking relationship with other banks and this implies that they fairly and comparatively evaluated this bank in this specific service. It also implies that these customers did not get adequate service in international banking service from WOGAGEN BANK and went to their banks for it.

The service quality dimension that scores better mean in customer's perception on WOGAGEN BANK Physical design and appearance followed by Assurance with mean scores of (4.07), (4.06) respectively. This means that for their current banking need neatness of the staff and the placement of materials and formats on proper place, availability of good physical facility and its modernity on top of staff politeness in contacting their customer is not bellow their expectation. Due to the safeness of customer's transaction in WOGAGEN BANK, they also trust the staff and feel secure in this bank.

The third and fourth having equal mean score of 3.95 are empathy and responsiveness which is related to how the service hour is convenient, how the staffs understand specific needs of the customer and how far they give individualized attention to their customer; how far the employees give information on when to deliver, prompt service delivery, employee willingness to help customers, responding to customer needs even in pick

hours. The fifth rated perception of the quality service is reliability dimension with mean score of 3.87. In this dimension respondents were less satisfied in comparison to the rest of the SERVQUAL dimensions and WOGAGEN BANK shall strictly review its service in this area so that it can improve customers' loyalty.

Furthermore, the dependence and/or association between each item of demographic factors of respondents and customer loyalty was analyzed using Chi square test. The result of the analysis showed that there is positive and significant relationship between marital status and length of relationship with wegagen bank and customer loyalty even though the degree of the dependence varies as the items in each dimensions varies.

Furthermore, the effect of each item of service quality dimensions on customer loyalty was analyzed using Binary Logistic Regression. The result of the analysis showed that there is positive and significant effect of reliability and tangibility (Physical design and appearance) on customer loyalty. Empathy is the other SERVQUAL dimension with lesser significance level but affect customer loyalty negatively. Responsiveness and assurance are the least significant quality dimensions in the equation.

From this study results, the highest significant effect is Tangibility with beta value (coefficient) of and significance of 0.001, followed by Tangibility the second highest beta value of 0.729 and significance of 0.018.

## 5.2. **Recommendations**

As discussed in the findings of the study two service quality dimensions (reliability and tangibility) have a positive and significant relationship with customer loyalty. As a result with no debate to improving these aspects of service areas will absolutely contribute to the overall WOGAGEN BANK's customers' loyalty and sustainability in view of the fact that the current customer loyalty level has no continual guarantee. On top of this, understanding of the major factors in the service quality dimensions that influence customer loyalty should be critically revisited by the management of the bank to redesign and deliver what has promised at what time has been promised. Relying on these findings of the study, the following recommendations are forwarded by the researcher to improve the weak service quality areas so as to maintain borrower export customers' loyalty of WOGAGEN BANK.

In order to improve and maintain customers' loyalty which will in effect helps these customers in recommending this bank to other bank users, in considering WOGAGEN BANK first among other competitors in this highly competitive industry and in relabeling the continuity of customers at hand in the future too, the following recommendations are provided on the already described items of service quality dimensions.

- The Bank should keep its promise during its marketing activities and advertisements. And the bank should provide the international banking service because the customer switching point is on that specific service.
- The Bank should also need to promote on other accounts than only saving account as majority of the services the respondents are maintained is saving account.

Responsiveness attributes also requires special attention and therefore the following recommendations are found to be important.

- WOGAGEN BANK should standardize its service delivery time and integrating them across various groups so as to give confidence to its staff to tell their customer when exactly service will be performed.
- The bank shall arrange trainings to its staff in the area of serving international banking customer since these men have exposure of international service.

Because of the facts revealed in analysis of Empathy dimensions, the following recommendations became valid.

- WOGAGEN BANK should give attention in branch location selection for better service convenience and render personalized attention to these Customer

Though it is not strong enough up to the desired level, Assurance scored relatively better than others and also need attention of the bank for better customer loyalty. Accordingly, WOGAGEN BANK staff should serve customers politely to the extent of the desired level and offer continual and considerable

support to these customers since most of them are credit customer of other banks and they might easily shift to other banks.

The last service quality dimension but relatively scored better score than all dimensions is Tangibles. Though better agreement is there, it is not strong enough, and is not free from recommendation and indispensable recommendation is hereof. Accordingly, the bank should cultivate a physical environment and organizational culture to make conducive to warm customers.

In general the researcher wants to recommend that WOGAGEN BANK should minimize complaints on service quality dimensions at all costs to enjoy sustainable customer LOYALTY.



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## **APPENDIX**

**Appendix A: Questionnaire in English**

**ST. MARY'S UNIVERSITY**

**SCHOOL OF BUSINESS**

**MASTERS IN MARKETING MANAGEMENT**

**Questionnaire for customers of WEGAGEN BANK S.CO**

I am Filimon Alene, Marketing Management graduating student from St. Marry University School of Graduate Studies Department of Marketing Management.

Dear respondent,

This questionnaire is meant to collect information about the influence of Service quality on customer loyalty in case of WEGAGEN BANK SCO.

The information obtained will be used to complete the study in partial fulfillment of the requirements for the award of Master Degree in Marketing Management.

The information that you would provide me is highly essential for significant contribution to the existing body of literature on consumer behavior and successful completion of my study. Please answer all items objectively. The researcher assures you that the information provided will be kept confidential and be used only for academic and professional ends.

**Note:** Kindly **put** a (✓) mark with the option that reflects your level of agreement with the given statement.

Demographic questions

1. Age : 20-25  26-30  31-35  36-40  >41
2. Gender : Male  Female
3. Educational level: Below high school  High school completed  Diploma  Degree   
Master  PhD
4. Marital status: Married  Single  Divorced  Widowed
5. Length of relationship with the WEGAGEN BANK SCO: 1year  1-2years  2-3 years  3-4  >4
6. Do you think you are loyal customer of WEGAGEN BANK SCO: Yes  No
7. Types of Accounts Maintained with WEGAGEN BANK SCO: Current Account  Saving Account  Fixed Deposit Account
8. Relationship with other Banks: Yes  No
9. If your answer is yes to question # 8, Please list out such bank(s)  
A..... B ..... C..... D..... E..... F..... G.....
10. In such case, type of service availed with other banks: Credit and International banking service   
others

Service Quality Related Questions

**Note:** Please also kindly put a (√) mark with the option that reflects your level of agreement

1 .Strongly disagree    2. Disagree    3. Neutral    4. Agree    5 strongly agree

S/N	Dimensions	Scale of Measurement				
	<b>I. Reliability</b>	1	2	3	4	5
1	WEGAGEN BANK SCO promises to do something by a certain time					
2	WEGAGEN BANK SCO Shows genuine interest in solving problems					
3	WEGAGEN BANK SCO Performs services dependably					
4	WEGAGEN BANK SCO Provides services at time promised					
5	WEGAGEN BANK SCO is Committed to error free services					
	<b>II. Assurance</b>					
6	Customers trust the employees of WEGAGEN BANK SCO					
7	Transactions are safe in WEGAGEN BANK SCO					
8	Employees of WEGAGEN BANK SCO are polite					
9	There is considerable support from this Bank					
	<b>III. Responsiveness</b>					
10	Staff of WEGAGEN BANK SCO are able to tell customers exactly when services would be performed					
11	Staff of WEGAGEN BANK SCO give prompt services to customers					
12	Staff of WEGAGEN BANK SCO are always willing to help customers					
13	Staff of WEGAGEN BANK SCO are never found too busy to respond to customers					
	<b>IV. Empathy</b>					



14	Staff of WEGAGEN BANK SCO give customers individualized attention					
15	Services of WEGAGEN BANK SCO are convenient to customers					
16	Staff of WEGAGEN BANK SCO gives customers personalized attention					
17	The operating hours of WEGAGEN BANK SCO are convenient					
18	Staff of WEGAGEN BANK SCO understand the specific needs of their customers					
	<b>V. Tangibles</b>					
19	The equipment of WEGAGEN BANK SCO is modern looking					
20	WEGAGEN BANK SCO has good physical facilities					
21	The staff of WEGAGEN BANK SCO appear neatly					
22	Every material and format associated with the services is in proper place					

26. If you maintain relationship with other banks, and if your reason is other than service quality, please specify.

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27. What do you feel that the company should be doing so as to make you loyal and remain adhering to WEGAGEN BANK SCO?

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Thank You so much.

Appendix A: Questionnaire in Amharic

ቅድስት ማርያም ዩኒቨርሲቲ

ድህረ- ምረቃት ምህርት ቤት

ለደንበኞች የተዘጋጀ መጠይቅ

ውድምላሽሰጪ

ይህመጠይቅ በማርኬቲንግ ማኔጅመንት የማስተርስዲግሪ ለማግኘት የተዘጋጀ ማሟያ ነው።

እኔ ፊሊሞን አለነከ ቅድስት ማርያም ዩኒቨርሲቲ የሁለተኛ ደረጃ ምህርት ክፍል በማርኬቲንግ ማኔጅመንት ተመራ ቁተ ማሪኝ ነኝ።

ይህ መጠይቅ የወጋገን ባንክ አማካኝ ለግለሰብ ጥራት ለደንበኞች ታማኝነት ያለውን ተፅዕኖ ለማጥናት መረጃ ለማሰባሰብ የተዘጋጀ ነው።

የሚሰበሰበው መረጃ ለጥናቱ ዓላማ ሆኖ በማርኬቲንግ ማኔጅመንት የማስተርስዲግሪ ለማግኘት ከፊል ማሟያ በመሆን ጥቅም ላይ ይውላል።

የሚሰበሰበው መረጃ ጥራትና ታማኝነት ለማካሄድ ወጥናት ስኬታማነት ከፍተኛ አስተዋጽኦ አለው።

እባክዎ ገቢዎን ለመስጠት ለመመለስ ይሞክሩ።

ተመራ ማሪኝ የሚሰጡትን መረጃዎች ሚስጥራዊ፣ ለአካዳሚክ እና ፕሮፌሽናል ዓላማዎች ጥቅም ላይ እንደሚያውል ያረጋግጣል።

ማስታወሻ:- እባክዎትን የእርስዎን ሃሳብ ምርጫ በሚያጻግር ቀውም ምርጫ ፊት ለፊት ባለው ሣጥን ውስጥ የራይት (✓) ምልክት ያስቀምጡ።

**ስለመላሽች የተጠየቁ ጥያቄዎች**

1. እድሜ 20-25  26-30  31-35  36-40  ከ41 በላይ
2. ፆታ: ወንድ  ሴት
3. የትምህርት ደረጃ: ከ2<sup>ኛ</sup> ደረጃ በታች  2<sup>ኛ</sup> ደረጃ ያጠናቀቁ   
 ዲፕሎማ  ዲግሪ  ማስተርስ  ፒኤችዲ
4. የጋብቻ ሁኔታ: ያገቡ  ያላገቡ  የፈቱ  ባሊ/ሚስቱ የሞተባት/ችበት
5. ከወጋገን ባንክ አ.ማ ጋር የነበርዎት ግንኙነት ርዝመት: 1 ዓመት  1-2 ዓመት  2-3 ዓመት  3-4 ዓመት   
 ከአራት ዓመት በላይ
6. የወጋገን ባንክ አ.ማ ታማኝ ደንበኛ ነኝ ብለው ያስባሉ? አዎ  አላስብም
7. ወጋገን ባንክ አ.ማ ያልዎት የሂሳብ አይነት: ከረንት አካውንት  የቁጠባሂሳብ  ቋሚ ተቀማጭ ሂሳብ  ከአንድ አመት በላይ
8. ከሌሎች ባንኮች ጋር ግንኙነት አልዎት: አዎ  አይ
9. ለጥያቄ ቁጥር 8 ምላሽዎ አዎ ከሆነ ባንኮችን ሥም ይዘርዝሩ  
 ሀ. \_\_\_\_\_ ለ. \_\_\_\_\_ ሐ. \_\_\_\_\_ መ. \_\_\_\_\_ ሠ. \_\_\_\_\_ ረ. \_\_\_\_\_ ሰ. \_\_\_\_\_
10. ከሌሎች ባንኮች የሚያገኙት የአገልግሎት አይነት ምንድን ነው? የዱቤ  ኢንተርናሽናል ባንኪንግ አገልግሎት (ሐዋላ)   
 ኤሌክትሮኒክ ስባንኪንግ (ኢ. ፔይመንት)  ጋራንቲ  ከወለድ ነፃ ለሆኑት የትርፍ ክፍፍል (Profit Sharing)   
 ሌሎች

### ከአገልግሎት ጥራት ጋር የተያያዙ ጥያቄዎች

ማስታወሻ እባክዎን የራደት (✓) ምልክት በቀረቡት መግለጫዎች የሚሰማሙበት ላይ የእርስዎን ምርጫ የሚያጸባርቀውን ምልክት ያድርጉ።

- |               |                         |               |
|---------------|-------------------------|---------------|
| 1. በጣም አልሰማማም | 3. በመስማማትና ባለመስማማት መካከል |               |
| 2. አልሰማማም     | 4. እስማማለሁ               | 5. በጣም እስማማለሁ |

ተ.ቁ	ዳይሜንሽን	የልኬት ስኬል				
		1	2	3	4	5
	<b>1 አስተማማኝነት (Reliability)</b>					
1	ወጋገን ባንክ አማካኝነት ለተወሰኑ ጊዜያዊ የሆኑ ገቢዎች ለመስጠት ቃል ይገባል					
2	ወጋገን ባንክ አማካኝነት ለተወሰኑ ጊዜያዊ የሆኑ ገቢዎች ለመስጠት ቃል ይገባል					
3	ወጋገን ባንክ አማካኝነት ለተወሰኑ ጊዜያዊ የሆኑ ገቢዎች ለመስጠት ቃል ይገባል					
4	ወጋገን ባንክ አማካኝነት ለተወሰኑ ጊዜያዊ የሆኑ ገቢዎች ለመስጠት ቃል ይገባል					
5	ወጋገን ባንክ አማካኝነት ለተወሰኑ ጊዜያዊ የሆኑ ገቢዎች ለመስጠት ቃል ይገባል					
	<b>2. ዋስትና (Assurance)</b>					
6	ደንበኞች የወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
7	ወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
8	የወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
9	የወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
	<b>3 ኃላፊነት መውሰድ (Responsiveness) (መፍትሔ ሰጪነት)</b>					
10	ወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
11	ወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
12	ወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
13	ወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
	<b>4. አትኩሮት (Empathy)</b>					
14	ወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
15	ወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
16	ወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
17	ወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
18	ወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
	<b>5. ተጨባጭነት (Tangibles)</b>					
19	የወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
20	የወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
21	የወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል					
22	ከአገልግሎት ጋር የተያያዙ ጥያቄዎች ለመስጠት ቃል ይገባል					

23. ከሌሎች ባንኮች ጋር ግንኙነት ካልዎት ምክንያት ወይም ከአገልግሎት ጥራት ሌላ ከሆነ እባክዎን ይግለጹ

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24. እርስዎ ታማኝ በመሆን ከወጋገን ባንክ አማካኝነት ለመስጠት ቃል ይገባል

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**በጣም አመሰግናለሁ!**