

ST. MARY UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MBA PROGRAM



**THE EFFECT OF INTEREST FREE BANKING SERVICE
QUALITY ON CUSTOMER SATSFACTION
THECASE OF COMMERCIAL BANK OF ETHIOPIA**

By:

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SGS/0150/2009A

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Addis Ababa, Ethiopia

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REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION**

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Declaration

I, the under signed, Declare that this thesis is my original work prepared under the guidance of Mohammed Mohammednur (Asst. Prof). All sources of material used for the thesis have been duly acknowledged. I further conform 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.

Name: Senayit Getachew

Signature: _____

Date: _____

Endorsement

I, hereby certify that, Ms. Senayit Getachew student of Masters of General Business Administration at St. Mary University, Department of General Business Administration, School of Graduate Studies, has completed her research project on “The effect of Interest free banking service quality on customer satisfaction”, under my advice, guidance and supervision.

Advisor

Signature & Date

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Senayit Getachew

List of Acronyms/Abbreviations

NBE	National Bank of Ethiopia
CBE.....	Commercial bank of Ethiopia
SERVQUAL.....	Service Quality
SPSS.....	Statically Program for Social Studies
IFB	Interest Free Bank
CB.....	Conventional Bank
IB.....	Islamic Bank

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Abstract

The success and endurance of banking industry nowadays depend on the quality services to customers and Interest free bank are not exception to this. Although the banking industry is starting and offering various types of IFB financial services to the public, their existence does not do any good unless they deliver a quality service. The purpose of this study is to determine the effect of service quality of non-interest bank on customers' satisfaction using CBE as a case study. The study adopted modified SERVQUAL measurement dimensions comprising of six dimensions such as: assurance, reliability, tangibles, empathy, and responsiveness and compliance dimension signifies the ability of the organization to comply with Islamic law and principles in their operation. The research design used was casual(explanatory) study that shows the effect of independent variables on dependent variables (in this case assurance, reliability, Compliance Islamic Law, tangibles, empathy and responsiveness on CBE IFB customers). Among the sample size 204 IFB customers of CBE only 170 respondents were returned the questionnaire. The data collected from the questionnaire were analyzed using descriptive, correlation, and regression analysis VIA SPSS Version 21. The results of this study indicate that, all the service quality dimensions (compliance, tangibility, reliability, responsiveness, empathy and assurance) have positive and significant relationship with customer satisfaction. Based on regression result it is observed tangibility, compliance with Islamic law, responsiveness, empathy and reliability dimensions have positive and significant impact on customer satisfaction. The other dimension that is assurance has no significant effect on satisfaction. Furthermore, 84.8% of the variations in customer satisfaction on IFB service is explained by service quality dimensions of IFB. The finding of the analysis showed that, the performance of CBE in providing quality service in interest free banking is not in a position to meet the expectation of the customer. Low service quality leads low customer satisfaction. Based on this, in order to improve performance of the IFB service, the researcher suggested that, the bank should work to improve all service quality dimensions in order to sustain IFB customer satisfaction and provide relevant training for its front line employees.

Key Words: *Service Quality, Customer Satisfaction, interest free bank, Modified SERVQUAL Model*

CHAPTER ONE

INTRODUCTON

1.1. Background of the Study

The Ethiopian legislation (Pro No.591/08 &592/08) defines “banking” as any business activity consisting of using the funds for investment and lending, receiving funds from public in line with the directives and proclamation of the central bank, discounting and negotiation of promissory notes, bill of exchange and other evidence of debit and transferring funds locally and internationally. Banks earn maximum returns from this intermediation in the means of interest charge high interest on loans to cover their expense, cost of fund and profit of the owners.

Banking environment is significantly affected by technological, structural and regulatory factors throughout the world. Banking has integrated globally by implementing regulatory changes (Anwar, 1999). Banks can perform a wide range of activities by implementing structural changes to become more competitive in the financial market. In recent times, banks are involved to provide quality services by using technological changes in the environment. These rapid changes allow the banking sector to improve service quality and customer satisfaction (Metawa and Al-Mosawwi, 1998; Anwar et.al, 1999; Newman, 1996; Arsali, 2005; Herington, 2007; Raza et.al, 2014).

Interest free bank (IFB) un like conventional bank an alternative banking service which is in line with values and ethos of Islam, and governed by the principles of Sharia Law that requires not charge interest and avoid any unethical practices in achieving its goals and objectives (Gait and Worthington, 2008). Also an alternative filling the gap left unaddressed by the Conventional Banking (CB) due to various reasons basically pertaining to religious, social, economic and cultural motives and contribution to the economic development by inviting an idle fund kept away from the conventional banking system (Teferi, 2015). Payment of interest which is known as Riba is prohibited in interest free banking system this is underline with several units including their religious books. Also clearly define that profit must be earned from exchange of goods and service but not from exchange of money itself (Khan et al, 2008). Within a span of five decades;

Islamic Banking has been successfully developing into a viable alternative banking framework all over the world.

Now a days, it has been reported that there are approximately 500 Islamic Banks World Wide controlling about one trillion worth of assets and the figure is estimated to reach four trillion dollars by the year 2020 (Aliyu, 2010). Also, Mamman (2005) states that there are over 75 countries operating Interest-Free Banks (IFBs) with an annual growth rate of 12-15% per annum.

Observing this increase demand, different big multinational conventional banks are opening IFB windows providing interest free banking product different part of the world (Beng and Ming, 2008). In accordance with Article 22(2) of Banking Business Proclamation (BBP) No. 592/2008, the NBE through the BSD No. SBB/51/2011 authorized the business of IFB levied to do interest free banking business in one window with conventional banking. Presently, other commercial banks are following and engaging in the IFB service. Same license is granted to the Commercial Bank of Ethiopia (CBE) on September 17, 2013 that opened IFB window in some selected city branches and outline branches to provide IFB products and service. As the document of Commercial Bank of Ethiopia (June, 2014) indicates that the interest-free financial products and services offered under separate windows are Wadiya Amanah account, Qard account, Mudaraba account, Ba`i –Salam mode of financing, Istisna mode of financing, Ijarah mode of financing, Musharakah, Mudarabah, Qard al Hassen and Kafala.

Customer satisfaction facilitates the measure of how service and product provided by company meet customer satisfaction. As competition within the financial services industry is more intense than ever, and as banking companies' service menus are becoming increasingly comparable, the need to understand bank customer satisfaction is vital (Rose & Marquis, 2006). Service quality and product quality are vital elements in determining customer satisfaction, as is customer awareness. In this context, quality is the key factor and is synonymous with the consumer's ability to select from a wide array of products and services that provide a closer match to his or her needs and desires (Ho, Lau, Lee & Ip, 2005).

The relationship between bank customers' awareness, the service quality they receive and their level of satisfaction has been investigated in different countries, but when we come to Ethiopia there are few studies on Interest free banking such as (Debebe, 2015) factor affecting customer to

use interest free banking in Ethiopia and (Mohammed, 2012) on Islamic banking prospects, opportunities and challenges in Ethiopia.

Coming to commercial bank of Ethiopia, there is limited empirical research on interest free bank and studies address on customer satisfaction, customer awareness, service quality and its challenge in IFB. Therefore, the main purpose of this study was to investigate the effect of interest free banking service quality on customer satisfaction in case of commercial bank of Ethiopia.

1.2. Statements of the Problem

The introduction of IFB is changing the Ethiopian financial environment by generating new philosophy and phenomena in the banking sector Debebe (2012). Such scenario had also led to the change in the customer's taste and demand for better and high quality banking service (Merton, 1995). According to the central statistics agency the Ethiopian Muslim represent more than 34% share of the population that means more than 27million (ICPS, 2012) this is a potential target market to provide the interest free banking service, there are also non-Muslims that need to use interest free banking service.

In Ethiopia, the IFB service experience is not more than five years with the limited legal framework; Manpower, Competition, Financial Literacy, Religion and Moral Hazard, being significant constraints on the operation of the Interest-Free Window Mohammed(2012). And many IFB customers voice concerns about inefficiency and lack of service quality excellence in the interest free banking windows.

Even though CBE has been providing full interest free banking services still there are some factors which are currently affecting customer satisfaction and service quality. Those factors have been continuously raised by customers from time to time. Those factors are observed and noted from the feedbacks that have been provided in IFB dedicated windows from designated customers. Some of the feedbacks include weak operation of the Interest-Free Window, failure to aware customers about IFB products, lack of full operation on interest free banking services, providing other conventional banking services on the dedicated IFB window, lack of employee understanding about IFB products and sometimes lack of ability in providing basic information

about each IFB products.

There are many studies on conventional banking in Ethiopia context in general and in CBE in particular. Most of the studies deal with bank selection criteria, product/service quality, satisfactory relationship and their effect on image and loyalty as well as customer awareness. The studies undertaken in Ethiopia regarding Islamic banking such as; Mohamed(2012), Islamic banking prospects, opportunities and challenges in Ethiopia, Debebe(2015), on factor affecting customer to use interest free banking in Ethiopia, and Akmel(2015), on challenges and prospects of Islamic banking for resource mobilization. Thus studies attempts to empirically support the area but, do not covers customer satisfaction towards interest-free financial products and services quality at Commercial Bank of Ethiopia.

Belay and Ebisa (2012) on evaluation of customer satisfaction on bank service in case of CBE, Shanka, (2012) on bank service quality, customer satisfaction and loyalty in Ethiopian banking sector and R. Karunakaran, (2013) a review of service quality and customer satisfaction. The above studies analyzed customer satisfaction on conventional bank (interest based) but not undertake interest free bank. However, those studies are limited only on conventional banking and In addition to this; most studies are not give focus for target customer who uses interest free banking service.

Satisfaction and service quality is a crucial concern for both customers and organizations including banks. Othman and Owen (2001, 2002) use a service quality scale called SERVQUAL dimensions. Their study proposed an insight view that how to improve SERVQUAL. Findings suggest that model is a multi-dimensional variable containing six different dimensions in which Interest free bank's customer emphasize on compliance dimension.

Based on the above problem, the current study is an attempt to examine the effect of interest free banking service quality on customer satisfaction in case of CBE.

1.3. Research Questions

This study tries to answer the following basic questions.

- ✓ What are IFB service quality factors to determine customer satisfaction?
- ✓ What are the relationship between IFB service quality i.e. (compliance, Assurance,

Tangibles, Responsiveness, Reliability, and Empathy) and customer satisfaction?

- ✓ Which service quality dimensions have significant contribution to IFB customers' satisfaction?

1.4. Objectives of the Study

1.4.1. General Objective of the Study

The general objective of the study is to investigate the effect of Interest free banking service quality on satisfaction of IFB customer in case of Commercial Bank of Ethiopia.

1.4.2. Specific Objectives of the Study

- ✓ To examine the effect of IFB service quality factors that determine customer satisfaction
- ✓ To examine the relationship between IFB service quality (i.e. compliance, Tangibility, Reliability, Responsiveness, Assurance and empathy) and customer satisfaction
- ✓ To identify which service quality dimension have significant contribution to IFB customers' satisfaction

1.5. Research Hypotheses

Based on the research objectives and questions of the study the following hypotheses are developed and were tested in this study:

Hypothesis 1

Ho1: Reliability dimension of service quality is positively related and has significant impact on IFB customer satisfaction.

Hypothesis 2

Ho2: Responsiveness dimension of service quality is positively related and has significant impact on IFB customer satisfaction.

Hypothesis 3

Ho3: Assurance dimension of service quality is positively related and has significant impact on IFB customer satisfaction.

Hypothesis 4

Ho4: Empathy dimension of service quality is positively related and has significant impact on IFB customer satisfaction.

Hypothesis 5

Ho5: Tangibility dimension of service quality is positively related and has significant impact on IFB customer satisfaction.

Hypothesis 6

Ho6: Compliance to Islamic law dimension of service quality is positively related and has significant impact on IFB customer satisfaction.

1.6. Scope and Limitation of the study

1.6.1 Scope of the study

The scope of the study was delimited to see the effect of interest free banking service quality on customer satisfaction by using the six dimension of service quality: these are compliance, reliability, tangibility, assurance, empathy, and responsiveness adopted from (Othman and Owen (2001)). Geographically the study focus was on Commercial Bank of Ethiopia selected branches. The study restricted to specific area which is west Addis Ababa district six selected branches (Abakoran, Addis Ketema, Alembank, Anwar Masgid, Mehalgebeya and Pawulos) as opposed to the entire branches of CBE all across the country. As the method of primary data collection, only questionnaire were used to conduct the study. The study only focuses on interest free banking service.

1.6.2 Limitation of the study

As stated earlier this study is limited in scope. The outcome of the study is solely dependent on individual responses of the respondents that participate in the study thus the findings of this study may not give a general picture of the IFB service quality in commercial bank of Ethiopia. Moreover, as the sample is small the results might not be generalized beyond the specific

population considering the total population is large.

1.7 Significances of the Study

First, this study may help commercial bank of Ethiopia to identify the strengths and weaknesses of the service delivered and to know its effect on customer satisfaction. Second, it allows the managers to have knowledge on where the bank stands in the eyes of its customer. Third, it can be a good indicator for the managers to identify the gap between the perception about interest free banking service and the actual customer satisfaction. Moreover, the study also helps other researchers who are interested to conduct further investigation on similar areas.

1.8 Definition of terms

- **Interest Free Banking:** -Banking system which is in line with values and ethos of Islam, and governed by the principles of Sharia Law.
- **Service quality:** - Is the difference between customer's expectations for service performance prior to the service encounter.
- **Customer satisfaction:** - a function of the customer's expectations and perceptions of performance according to the expectancy - disconfirmation paradigm. (tse&wilton, 1988)
- **Compliance to Islamic Law-** follows strict Sharia compliance procedures, specifically the prohibition of taking or giving interest. (Othman and Owen, 2001)
- **Reliability:** - the ability to perform the promised service dependably and accurately.
- **Responsiveness:** - willingness to help customers and provide prompt service.
- **Tangibles:** - is appearance of physical facilities, equipment, personal, and communication materials.
- **Assurance:** - is knowledge and courtesy of employees and their ability to convey trust and confidence.
- **Empathy:** - is carrying individualized attention the firm provides its customers.

1.9 Organization of the Study

The research paper was organized in to five chapters. The first chapter discusses the Introduction, Background of the Study, Statement of the problem, Objectives of the Study, research questions, Significance of the Study, scope and limitations of the study. Second chapter presents Literature review. Third chapter mainly deal with description of the research area, sources of data, sample size and sampling procedure, methodology and data presentation and analysis use for the study. Fourth chapter cover the presentation and analysis of data. Finally the last chapter comprises a summary of the findings; conclusion and recommendation.

CHAPTER TWO

LITERATURE REVIEW

2.1. Theoretical Literature

2.1.1. Concepts and Definition

The definitions of Islamic banking or IFB revolved around one thing - Islamic law (Shari'ah). This can be understood in the following definitions from different authors. For instance Interest Free Banking (IFB): Is 'a banking business in which mobilizing or advancing of funds taken in a manner consistent with Islamic Finance Principles and mode of operation that avoids receiving or paying interests', (NBE's Directive No.SBB 51/2011).

Many Interest free banking literature assert that although interest free banks perform mostly similar functions to that of conventional banks, their approach is distinctly different (Ahimed, 2000; Chapra, 2000; Warde, 2000; Henry and Wilson, 2004; Iqbal and Molyneux, 2005; Iqbal and Mirakhor, 2007). To illustrate, some of the salient features of interest free banking and finance which making it distinctive and unique from its conventional counterparts include: interest free bank Business framework Functions and operating modes are based on Shari'a, and interest free banks must ensure that all business activities are in compliance with Shari'a requirements and Financing is not interest (riba) oriented and should be based on risk-and-reward sharing.

The account holder of IFB customer does not receive interest (riba) but may share risk and rewards of Investments made by the interest free bank and offer equity financing with risk sharing for a project or venture Losses are shared on the basis of the equity participation, whereas profit is shared on the basis of a pre-agreed ratio. IFB are allowed to participate only in economic activities that are Shari'a compliant. For example, banks cannot finance a business that involves selling pork or alcohol and transactions with elements of gambling or speculation are discouraged or forbidden. Each IFB bank must have a supervisory board to ensure that all its business activities are in line with Shari'a requirements.

Interest free bank must be in compliance with the statutory requirements of the National bank of the country in which it operates and also with Shari'a guidelines. Interest free banks are not allowed to charge penalties for their enrichment they may, allow imposition of default or late payment Penalties may be donated to a charity. The status of an Interest free bank in relation to its clients is that of partner and investor.

The conventional banking system (interest based) Functions and operating modes are based on secular principles, not religious laws or guidelines and Financing is interest oriented, and a fixed or variable interest rate is charged for the use of money. Depositors receive interest and a guarantee of principal repayment. The Conventional banking risk sharing is not generally offered but is available through venture capital firms and investment banks, which may also participate in management. Also, may finance any lawful product or service for example, Speculative investments are allowed. Each Islamic bank must have a supervisory board to ensure that all its business activities are in line with Shari'a requirements.

Conventional banks have no such requirement. A conventional bank must be in compliance with the statutory requirements of the central bank of the country in which it operates and in some places, the banking laws of state or other localities. Conventional banks normally charge additional Interest in case of late payments or defaults. The status of a conventional bank in relation to its clients is one of creditor and debtor (CBE, awareness creation 2006 E.C).

2.1.2 Interest (Riba)

Interest is the component in the banking concept. According to Mohammed and Mahdi, (2010) interest is one of the most effective factors for deciding to deposit in banking system. Herald and Heiko, (2009) also mentioned interest as one of the determining factor for commercial bank deposit and it is important element of Islamic economic society. All covers the meaning to load additional money on funds lent to borrower. As such it is fundamental to understand the Islamic economics to have fair idea about Islamic banking. Kahn, (1986) also defines an interest-based, or traditional, banking system is symmetrical, with interest being paid and charged for the use of funds. In addition to this Iqbal and Mirkahor, (2011) interest simply refers to the "premium" that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or for an extension in the duration of loan.

Interest is a contractual instrument by which the lender collects a predetermined interest added to the principal amount it has lent out. The principal amount can be money, gold, silver, or fungibles including wheat, barley, dates, etc (Qasaymeh, 2011)

2.1.3 Prohibition of interest

Prohibition of interest is any unjustifiable increase of capital, whether in loans or sales, it is the central tenet of the system. More precisely, any positive, fixed, predetermined rate tied to the maturity and the amount of principal that is, guaranteed regardless of the performance of the investment is considered interest and is prohibited (Iqbal and Mirkahor, 2011).

2.1.4 Basic Features of Interest free Bank

Interest free banking (Islamic banking) is a unique type of banking system that avoids all forms of transactions that are prohibited in Islam. So for any bank to be classified as Islamic bank, the following basic principles must be adopted for its operations (Greuning and Iqbal, 2008; Abraham, 2008; Islamic Financial Stability Forum, 2010; and Sanusi, 2011):

- a) **Prohibition of interest (Riba).** Interest means a fixed predetermined amount in addition to the principal. It is prohibited in Islam. So for any bank to be called Interest free bank, it must not engage in any interest related transactions, but rather, profit and loss sharing transactions.
- b) **Prohibition of speculation (gharar).** The term gharar literally means hazard. More so, it means transactions that have too much risk and are therefore linked to gambling. Since Islam prohibits speculation, a potential Interest free bank will avoid all transactions with excessive risk.
- c) **Profit, loss, and risk sharing.** Since interest is prohibited in Islam, the providers of funds and the entrepreneur in an Islamic banking settings share the business risk and profits based on mutual agreement. This act will equitably distribute income, enhance social justice, and alleviate poverty etc.
- d) **Shari'ah approved activities.** Interest free banking is a banking system that is based on Shari'ah. So any transactions that are prohibited by Shari'ah in the likes of alcohol, gambling

etc. are avoided in Interest free banking. Interest free banks can only partake in transactions or activities that are approved by the Shari'ah advisors.

- e) **Social Justice.** Islam prohibits Muslims from any transactions leading to injustice and exploitation of any kind. So Islamic banks can't engage in any transactions that will lead to exploitation of any party.
- f) **Compulsory payment of zakat.** It is mandatory for an Islamic bank to pay zakat. Zakat is one of the five pillars of Islam.
- g) **Overseen by Shari'ah advisors.** Every Interest free bank must be regulated by experts in Islamic law who will have to audit the operations of Interest free banks and its products to make sure that they comply with Shari'ah guidelines.

2.1.5 Products of Interest Free Bank

Unrestricted Investment Deposits (Unrestricted Mudaraba)

This type of deposit is deposit is an earning deposit which mobilized with the knowledge that bank acts as the Mudarib (manager) and invests the fund without restriction and intervention of the capital provider in any Sharia compliant manner. The profit on the investment will be shared as per agreement and loss will be shared by the depositor (capital provider). The bank has discretion to participate in the investment. The bank can pool the money for its daily IFB business activities (CBE, awareness creation 2006 E.C).

Restricted Investment Deposit (Restricted Mudaraba)

This type of IFB deposit is an earning deposit which is mobilized with the knowledge that bank acts as the Mudarib (manager) and invests the fund in restricted investment based on active intervention of the capital provider complemented with professional advice from the bank side. The profit on the investment will be shared as per agreement and loss will be shared by the depositor (capital provider). Example: Investment in the aluminum industry, real estate, etc.

a) Wadiah (Safekeeping) Deposit

It is a peculiar non-earning type of IFB deposit that operates under the contract of WadiahYadDhamanah (guaranteed custody). The bank accepts deposits from its customers looking for safe custody and convenience and requests permission to make use of the customers' funds for investment purposes promoting transparency. The customers may withdraw their balances at any time. Profit generated from the use of the customers' funds belongs to the bank. However, the bank may at its absolute discretion rewards the customers by declaring profits to them. Under the contract of Wadiah, the custodian i.e. the Bank is not allowed to mention or to promise any reward on the deposit received. The owner/depositors too cannot demand any rewards or return from their Bank on their savings (CBE, awareness creation 2006 E.C).

b) Demand Deposit (Amana Current Accounts)

Amana Current accounts are non-earning deposits that operate based on the principle of al-wadiah, whereby the depositors are guaranteed repayment or withdrawal of their funds on demand. At the same time, the depositor does not receive return for depositing funds in a current account, because the guaranteed funds will not be used for profit and loss ventures (CBE, awareness creation 2006 E.C).

2.1.5.1 Interest free Financing Products (Use of Funds)

These products are means of providing funds to those who need funds financial institutions in compliance with the IFB principles. Islamic mode of financing could not be based on lending of money as lending of money is not a remunerative way of financing. Prohibition of interest does not allow utilization of loan/lending as mode of earning. Therefore, there must be a way of funding that does not contain element of interest. Islamic financing products are highly secured from risk management point of view as the financing shall directly be made to the supplier of the goods or services to manage possible fund diversion, unlike the conventional bank. Though the resource utilization nature of the IFB business generally consolidates to trading and equity

(Musharaka) activities, Interest free mode of financing can be broadly categorized into three: trade-based financing, rental-based financing and partnership-based financing.

Trade-based Financing It is a means of financing in which Islamic banks provide financing through sale and purchase of tradable goods and services. Islamic banks buy a good or service (directly or through its agent) from the market and sell it to customers on deferred payment basis (installments). The agent may be an employee on Islamic bank, a third party or the customer himself as well. The following are different kinds of very common trade-based financing services:

- a) **Murabahah(Cost Plus)Financing:** Murabahah means cost plus mark-up sale and it the most popular, convenient and flexible IFB financing product. Based on this contract, the bank may finance customer who wishes to acquire an asset by purchasing the said asset from the developer/supplier and subsequently sells to the customer Shanmugam and Zahari (2009, p. 19). The customer is allowed to settle the payment of the asset by installment within a pre-agreed period.
- b) **Salam/Advance Payment against-deferred-delivery-of-goods:** Agreement to purchase at a predetermined price, a specified kind of commodity, not available with the seller, which is to be delivered on a specified future date, in a specified quantity (CBE, awareness creation 2006 E.C).
- c) **Istisna Financing /Work-in- Progress:** Involves advance payments for future delivery of goods. It can also involve future payment and future delivery of goods. In this case, Banks pre-sell the goods to a client for cash on delivery basis, and negotiate the purchase of the commodities with the supplier (CBE, awareness creation 2006 E.C).
- d) **Rental-based Financing:** Ijarah means lease or rent: Generally, the contract of Ijarah financing means selling of the benefit or use or service of an asset, for a fixed price or wage. Leasing is a contract between a lessor (bank) and a lessee for the lease of an equipment or machine which is chosen by the lessee from a supplier or manufacturer (Shanmugam and Zahari (2009, p. 20)). Islamic banks lease or lease and sell machines or equipment's to customers on deferred payment basis. Ijarah is the most common financing service under this mode. The lessor retains beneficial ownership to the equipment or machine. The lessee

has physical possession and use of the equipment or machine through payment of rentals over a stipulated period of time. (CBE, awareness creation 2006 E.C).

2.1.6. Customer satisfaction

Satisfaction became a popular issue in marketing during 1980s and is a doubtful topic during both business expansions and recessions. Most thoughts on customer satisfaction involve customer expectation of the service provision, actual delivery of the customer expectation and experience that are either unmet or exceeded (Holjevac, Marković, & Raspor, 2010). If expectations are exceeded the perception, positive disconfirmation occurred, while a negative disconfirmation occurred due to customer experience is poorer than expected, the key to sustainable competitive advantage lies in delivering high quality service that will in turn result in satisfied customers (Yoo & Park, 2007).

Customer satisfaction measures whether a product or a service provided by a supplier meets or exceeds customer's expectation. Kotler (2000) defined satisfaction as the pleasure or disappointment a person may feel as a result of comparing the perceived performance of a product (or outcome) in relation to his or her expectations. Similarly, Hoyer and MacInnis (2001) stated that satisfaction is connected with feelings of acceptance, happiness, relief, excitement, and delight. Hansemark and Albinsson (2004) described satisfaction as an emotional reaction to the difference between what customers anticipate and what they receive, regarding the fulfillment of some need, goal or desire. Eshghi, Haughton and Topi (2007) contended that customers' satisfaction assists in building brand names and achieving long and profitable relation with customers. Deng et al. (2009) indicated that the ability of a service provider to achieve high degree of satisfaction is crucial for product differentiation and developing strong relationship with customers.

In a competitive environment, customer satisfaction is viewed as being a crucial element in the firm's strategy. The firm needs to retain existing customers and target new ones. Customer satisfaction, loyalty and retention determine the success of an organization. Soderlund and Rosengren (2008) demonstrated that friendly attitude and courteous behavior of service firm's employees create positive impression and lead to customer satisfaction. East (1997) demonstrated that customers repeat the purchase of a product or a service if they are satisfied

with it. Richens (1983) and File and Prince (1992) believe that it is possible that satisfied customers will tell others about their experience with the product/ service and they might engage in word of mouth advertising. Naser et al. (1999) described customer satisfaction as the essence of success in a highly competitive market.

2.1.6.1. The Relationship between Service Qualities and Customer Satisfaction

Pleased customers tend to be devoted to the company and more likely to return. Understanding satisfaction is vital in the sense that dissatisfied customers hardly ever complain, but rather simply purchase from another service provider (Mueller, Palmer, Mack, & McMullan, 2003).

Satisfaction is most commonly described in terms of the disconfirmation approach, which describes it as the difference between a customer's pre-purchase expectations and post-purchase perceptions of the concrete service performed (Chang, 2009). The general thought is that satisfaction mediates the relationship among perceived service quality and firm performance (Babikas, Bienstock, & Van Scotter, 2004). However, some researches propose that satisfaction is a precursor to service quality (Millán & Esteban, 2004).

Substantial confusion continues to exist concerning the relationship between customer satisfaction and service quality. Millán and Esteban (2004), maintains that service quality and satisfaction have frequently been used interchangeably. Differences between customer satisfaction and service quality include: a) satisfaction is a post- experience decision customer experience while quality is not; b) in the satisfaction literature "expectations reflect anticipated performance" made by customers about levels of performance during their contact (Burns, 2003). Millán and Esteban (2004) assert that satisfaction is perceived as the final result of all actions carried out during the process of purchase and consumption. All evaluated definitions entail: a) the existence of an objective that the consumer wishes to reach; 2) the attainment (satisfaction) of this objective can only be judged by taking a standard of comparison as a reference; and c) the evaluation process of satisfaction involves the intervention of at least two stimuli; a result and a reference or standard of comparison (Kandampully & Hui-Hu, 2007). Satisfaction is related to size and direction of "non-confirmatory: experience defined by the difference between initial expectations of the individual and the real outcome resulted." While expectations are the needs or desires of the consumer, based on what the consumer senses should be delivered prior to

receiving it. Perceptions are the viewpoints of the consumer relative to the service received.

A great deal of the attention given to service quality is motivated by the foundation that it will increase customer satisfaction and ultimately lead to better financial performance (Babikas, Bienstock, & Van Scotter, 2004). The quality of products and services has also been associated to external indicators of customer satisfaction like warranty, complaints, litigation and market share (Kandampully & Hui-Hu, 2007). Pleased customers often lead to loyal customers who continuously repurchase the service or product. The industry challenges that not all companies are equally affected by customer satisfaction. Though, all organizations are relied upon repeated purchases that lead to higher profitability. Empirical evidence suggests that customer satisfaction arbitrates the relationship between service quality and firm performance (Babikas, Bienstock, & Van Scotter, 2004).

2.1.6.2 Factors that Influence Customer Satisfaction

There are many factors that affect customer satisfaction. Such factors include friendly employees, courteous employees, knowledgeable employees, helpful employees, accuracy of billing, billing timeliness, competitive pricing, service quality, good value, billing clarity and quick service (Hokanson, 1995). From the studies carried out in many countries, factors like: service quality, and perceived value, are the key constructs affecting the customer's satisfaction. Studies also point out that customer satisfaction results ultimately in trust, price tolerance, and customer loyalty. Therefore, building customer relationship is a backbone for all organizations in general, and companies in service industries in particular.

Issues like: customer satisfaction, service quality, customer perception, customer loyalty, are the main concerns of the nowadays service companies, which improves organization's performance and translates into more profits Cited by (IJARIBSS, 2011).

2.1.6.3. Customer Satisfaction in Banking Services Context

In contrast to products, customers are not really able to evaluate services before the service process takes place. The interaction with the service provider and the customers, the so called service encounter, is the key in the evaluation of service performance (Gil, 2008). During these encounters, the customer is able to get an impression of the way the company provides its

services. His/her service experience is defined by the interaction with the organization, the processes and the employees.

Accordingly, customer satisfaction is built upon the basis of service encounters. Service providers have significant opportunities to manage the interactions that together form the experience (Wirtz, 1994). They can design and the interactive production process; select, train and manage service employees; design and maintain the service environment; selectively target, socialize and educate customers. In banking services, satisfaction is usually conceptualized as a multidimensional construct (Manrai, L.A., Manrai, A.K., 2007). The list of bank service attributes used for the measurement of satisfaction comprises elements like: appearance of the facility, attitude and behavior of staff, decor and atmosphere, business hours, interest rate, waiting time. Bank customers may regard some of these elements as being not equally important as the others.

2.1.7. Service Quality

According to El Saghier et al., the concept of service quality denotes the degree to which firms' services meets customer's needs or expectations. A firm's service is presumed to be quality once it consistently conforms to customers' expectations. More so, service quality is the difference between customer's expectations of the service encountered and his/her perceptions of the service received. Customer expectation and perception are the two main ingredients in service quality. Oliver opined that customers in the market judge quality as "low" if its performance (perception) does not meet up with their expectations and the same quality as "high" when its performance exceeds their expectations. Customer expectation is a function of their conviction about the quality of goods and services which they receive from the organization that serves them. It is known to be a reference point for judging the performance of the service rendered. Understanding that customers compare the performance or quality of the services they received and use same as reference points is very imperative for marketers according to Zeithaml et al. Thus, one can deduce that service quality is the key customer satisfaction.

2.1.7.1 Service Quality Dimensions

Cronin and Taylor, Shanka and El Saghier et al., described five dimensions that constitute customers' expectations of service quality which is an arm of the twin factors of service quality

continuum developed by Parasuraman et al. These service quality dimensions according to them are as briefly explained below:

Reliability:-the ability to perform the promised service dependably and accurately. This dimension is critical as all customers want to deal with firms that keep their promises and this is generally implicitly communicated to the firm's customers (Zeithaml, Bitner, & Gremler, 2006).

Responsiveness:-willingness to help customers and provide prompt service. This dimension is concerned about dealing with the customer's questions, requests, and complaints attentively and promptly (Andaleeb & Conway, 2006).

Assurance: - the Knowledge and courtesy of employees and their ability to convey trust and confidence. The trust and confidence may be represented in the personnel who link the customer to the organization (Bolton & Saxena-Iyer, 2009).

Empathy: - the provision of individualized attention and caring to customers. There are numerous ways that empathy can be provided: knowing the customer's preference, his name, and his needs. Many small companies use this approach to render customized services as a competitive advantage over the larger firms (Zeithaml, Bitner, & Gremler, 2006).

Tangibles: - the appearance of equipment, physical facilities, personal and communication materials. It translates to the restaurant's the appearance and condition of the cutlery, interiors, uniform of the staff, the appearance and tableware, and design of the menu, restaurant signage and promotion system (Andaleeb & Conway, 2006).

And it has an additional service quality item which can be used to measure service quality of Islamic banks Ciptono (2013). According to Gambo (2013), this model was developed by Othman and Owen (2001) and it incorporates Islamic dimension to the existing SERVQUAL model. The model introduces a dimension known as "Compliance with Islamic Law" and this dimension signifies the ability of the organization to comply with Islamic law and principles in their operations Gambo, (2013). It incorporates attributes such as Compliance to Islamic law and principles, provision of interest free loans, and other Islamic products and services. Thus, model is an ellipsis denoting Compliance with Islamic Laws, Assurance, Reliability, Tangibles,

Empathy and Responsiveness. The adoption of this model is not usual as Othman and Owen (2001), Shafie (2004) and Gambo (2013) used this model in their studies.

2.1.7.2 Compliance Dimension of Service Quality in Interest free bank (IFB)

Interest free banks follow strict Sharia compliance procedures, specifically the prohibition of taking or giving interest. It is due to the fact that deciding interest before any economic activity is not fair. In Islamic banks, the idea of profit is based on the profit and loss sharing after the completion of business transactions. A Bank may have a chance of losing money if a particular business is unsuccessful to yield a profit. Thus, it assumes unfair if an entrepreneur faces loss and bank gains profit or vice versa. In addition, Islamic banks (IFB) are restricted to invest customers' money in the businesses that are unlawful under Sharia principles, such as alcohol business, gambling, and pork business and so forth (Siddiqui, 1992). According to the Banking Act 1983, Islamic financial institutions and Islamic banks are liable to establish a Sharia Advisory Board, which is responsible to advise Islamic banks about Islamic product and services also to ensure the operational activities of Islamic banks comply with Sharia rules.

Customer perception of the actual service performance rendered by firms is the other arm of service quality continuums. Perceived quality in views of El Saghier refers to a form of attitude related but not equal to satisfaction and fallout from expectation from consumption with perceptions of performance. Consequently, having an improved understanding of consumers' attitudes will facilitate knowing how they perceive service quality in banking operations. Without doubt, conceptual service quality models are useful in so much as they provide an overview of the factors which have the potential to influence the quality of an organization and its service offerings. They facilitate our understanding and can help organizations to clarify how quality shortfalls develop. However, human behavior significantly affects the quality of an organization and its offerings, and this is more evident in service organizations.

According to Clow and Kurtz (2003) a test instrument called SERVQUAL was developed to Measure service quality. Parasuraman et al. (1985) is believed to be the first who introduced the conceptual framework for the SERVQUAL model to measure consumer perceptions of service quality and later refined the model. According to the SERVQUAL model (Parasuraman et al., 1988), service quality can be measured by identifying the gaps between customers' expectations

of the service to be rendered and their perceptions of the actual performance of the service. It was developed to measure perceived service quality as the key output variable and in its finalized form it has 22 pairs of Likert-type scales. The first 22 items are designed to measure customer expectations of service for a particular service industry (expectations), while the remaining 22 are intended to measure the perceived level of service provided by a particular service organization (perceptions). Service quality is then measured by calculating the difference in scores between the corresponding items (i.e. perceptions minus expectations).

(Parasuraman et al, 1985), in other words, it is a technique that can be used for performing a gap analysis of an organization's service quality performance against customer service quality needs. Research has shown SERVQUAL to be an effective and stable tool for measuring service quality across service industries (Parasuraman et al., 1985, 1988; Zeithaml et al., 1990; 1993). SERVQUAL is based on five dimensions of service quality. The model was initially developed for financial services sector and it has been used for other sectors such as telecommunications, healthcare and hospitality. When perceived performance rating exceeds expectations, the outcome is considered as a sign of good quality whilst the reverse is an indication of a poor quality (Lovelock and Wirtz (2007).

More precisely in interest free banking (Islamic bank), Othman and Owen (2001, 2002) study investigated the service quality by using SERVQUAL dimensions. Their study proposed an insight view that how to improve SERVQUAL. Findings suggest that model is a multi-dimensional variable containing six different dimensions in which Islamic bank's customer emphasize on compliance dimension. In addition, Haron et.al (1994) findings revealed that 40 percent of Malaysian Muslims customers select Interest free banks due to the compliance factor.

Evidence of the study suggested that the religious factor plays significant role in selecting Islamic banks. According to Gambo(2013)this model was developed by Othman and Owen (2001) and it incorporates Islamic dimension to the existing SERVQUAL model. The model introduces a dimension known as "Compliance with Islamic Law" and this dimension signifies the ability of the organization to comply with Islamic law and principles in their operations Ghani, E. K., & Said, J. (2011). It incorporates attributes such as Compliance to Islamic law and principles, provision of interest free loans, and other Islamic products and services. Thus, model is an ellipsis denoting Compliance with Islamic Laws, Assurance, Reliability, Tangibles,

Empathy and Responsiveness Gambo, (2013).

2.2 Review of Empirical Studies

The extensive work of Parasuraman et.al (1985, 1988, 1991 & 1994) added literature to the service quality and proposed SERVQUAL instrument which is further used by many researchers (Arasli et.al, 2005). This instrument is extended to 22 item scale and many researchers have used to study service quality in different research context (Fick and Ritchie, 1991; Babakus and Boller, 1992; Avkiran, 1994; Smith, 1995; Buttle, 1996; Newman, 2001). Initially, it was understood that customer satisfaction can result from any quality or non-quality dimension (Awan, 2011). Howard and Sheth(1969) argued that customer satisfaction requires experience of the service provider. This fact further validate by Taylor and Baker (1994). Attention given to this fact, researcher added to the literature a concept of “service quality” through which customer satisfaction can predict well. Past researchers argued that the service quality concept is inconclusive that whether service quality is an antecedent of customer satisfaction or vice versa (Parasuraman et.al, 1985; Bitner, 1990; Anderson and Sullivan, 1993; Cronin and Taylor, 1992)

Hereafter, published articles which are written on the area of interest free banking and customer satisfaction are presented. These will help to see where the literature on this area is and how this study will add to the existing literature. Accordingly, the articles have been discussed below

According to Yusuf (2017) finding the six Service Quality variables are significantly related to customer satisfaction, reveals that the maximum correlation occurred between Compliance by Islamic laws and customer satisfaction with the value of 0.734, this was followed by Assurance variable with the value of 0.701. The value of Reliability variable is 0.632, while Tangibility variable had the value of 0.579. Responsiveness variable had the value of 0.566 and the lowest value of 0.563 was recorded by Empathy variable. The correlation results shows that service quality and customer satisfaction are positively correlated

Misbach, Saruchman, Hadiwidjojo and Armanu from Indonesia (2013) have applied Structural Equation Model (SEM) to investigate Islamic bank service quality, trust and satisfaction. They found that responsiveness is the strongest influence factor of Islamic bank service quality.

Al-Mutawa and Ibrahim (2013) tried to match front-desk employees' personality traits with the customers' assessment of Islamic Bank's service quality in the UAE using Mini-Markers instrument. The SERVPERF instrument and regression analysis have been used to determine the relationship between them. They have found that personality traits do not have interdependent effect on customers' service quality.

Metawa and Almosawi (1998) examined the behavior of customer which they adopt while choosing a bank. He found Shariah principles as most important factor. Similarly, Gerrard and Cunningham (1997) concluded that twenty five percent respondents ranked religion as most important factor but no difference is found between Muslim and Non-Muslims respondents regarding bank selection criteria.

The work of Shanka examined the quality of bank's service, satisfaction and loyalty of customers of Ethiopian Banking Sector. The study found that there is a positive correlation between service quality dimensions and satisfaction of Ethiopian banks' customers. On their part, El Saghier measured the influence of service quality dimensions on customers' satisfactions of Egyptian Banks and found through factor analysis results those four dimensions of service quality (i.e. reliability, responsiveness, empathy and assurance) influence users' evaluation of the quality of services in Egypt.

Study regarding the Islamic banking sector in Pakistan was carried out by Ahmad et.al. (2011). to investigate the relationship between customer satisfaction and performance of Islamic banks, the researchers collected data from 864 respondents out of 72 branches. Based on empirical findings, they concluded that there was a weak relationship between customer satisfaction and Islamic banks' performance, suggesting that bankers should introduce new, diversified and marketable products to meet the needs of their customers coming from the different segments of the society. According to Yusuf (2017) finding the six Service Quality variables are significantly related to customer satisfaction, reveals that the maximum correlation occurred between Compliance by Islamic laws and customer satisfaction with the value of 0.734, this was followed by Assurance variable with the value of 0.701. The value of Reliability variable is 0.632, while Tangibility variable had the value of 0.579. Responsiveness variable had the value of 0.566 and the lowest value of 0.563 was recorded by Empathy variable. The correlation results shows that service quality and customer satisfaction are positively correlated.

2.3 Conceptual Framework

Based on Service quality and Customer satisfaction theory there are relational factors such as Tangibility, Responsiveness, Reliability, Empathy and Assurance on the Satisfaction of customers as shown on figure 2.1 In addition the framework considers compliance with Islamic law which developed by Othman and Owen (2001). This dimension signifies the ability of the organization to comply with Islamic law and principles in their operations. As explained in the literature, service quality has an impact on customer satisfaction. Therefore, in this study customer satisfaction is taken as dependent variable while, service quality as independent variable. Also the study focuses on SERVQUAL model which represents customers' perceptions and expectation toward the service offered. The modified framework is shown below:

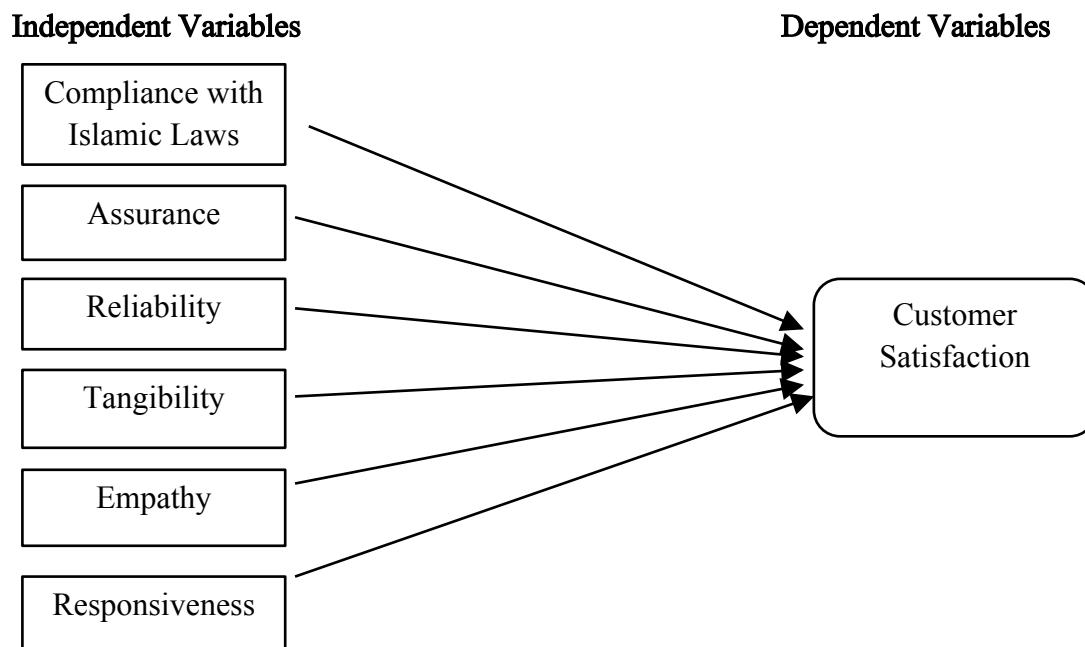


Figure 2.1Theoretical Model for the Study

Source: Authors of Othman and Owen (2001)'s Model

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Research Design

In order to answer the problem statement the nature of the study was both descriptive and explanatory type. Descriptive method was used to identify the relationship between dependent and independent variables, and is useful to identifying variables & hypothetical constructs, can be used as an indirect test of a theory or model. Explanatory research design was used to identify the cause and effect of IFB service quality on customer satisfaction which is appropriate for the objective of the study, also explanatory research design is a good fit to know the effects of the independent variable (compliance to sharia law, tangibles, responsiveness, reliability, assurance and empathy) on the dependent variable customer satisfaction.

3.2 Research approach

The approach to this study was both quantitative and qualitative research approach. Qualitative approach attempts to increase our understanding of why things are the way they are and why people act the way they do. In addition to this, the study was make use of quantitative approach for better understanding by using Five-point Likert-scale in the data analysis as well because one of the characteristic of quantitative research will make it suitable for this study. The researcher, therefore, has used combined quantitative and qualitative (mixed) approaches.

3.3. Type and Source of Data

In order to meet the objectives of the study both primary and secondary sources of data were used. The study more depends on primary data, which were collected by using a questionnaire developed based on modified SERVQUAL instrument and obtained from customers of selected sample branches located in Addis Ababa.

Secondary data were obtained from different websites, IFB department unpublished materials, working policies and procedures, journal articles and different books that are reviewed in the area of interest free banking service.

3.4. Population of the Study

3.4.1 Target Population

According to (Sekeran, 2001) cited in (Hirut S.2015), a population is “the entire group of people, events, or thing of interest that the researcher wishes to investigate”. The populations of this study were customer of IFB at commercial bank of Ethiopia Addis Ababa city branches under west Addis Ababa district (WAAD). The reason to focus on this district is: according to IFB department database as of December 31, 2017 among four districts, WAAD have large number of IFB customers. Among 171,868 IFB account holder 114,513 of them are under west Addis Ababa district.

The target populations for the study were customers of west Addis Ababa district grade four branches. These branches were selected for this research because they have a large number of IFB customers and high volume of transaction.

3.4.2 Sample Size

The sample size refers to the number of observations or replicates to include in a statistical sample. In order to determine sample size; the researcher was use formula for calculating the required sample size in six branches which are found in West Addis Ababa District. The formula was developed by Taro Yamane (1967), it is calculated as follows

Assumptions

A 95% confidence level, and $e = \pm 5\%$

$$n = \frac{N}{1 + N(e)^2}$$

Where:-

n = the sample size

N = the population size

e = the level of precision (Sampling error)

$$n = \frac{17,939}{(1 + 17,939(0.07)^2)} = 204 \text{ sample size of the research}$$

Hence, the total sample size were 204 Since the number of IFB customers in each branch is not the same, the number of samples for each branch were calculated by the following formula:

$$n = \frac{nN1}{N}$$

Where;

n= is total number of sample

N =is total number of population

N1= is total number of population in each branch

Table 3.1 List of Sample Branch

Sample Branch	Total Number of Population	Total Number of Sample
Abakoran	3,254	37
Anwarmesgid	3,407	39
Pawlos	1,270	14
Addis ketema	2,026	23
Alem bank	5,675	65
Mehalgebeya	2,307	26
Total	17,939	204

Source: quarter performance of CBE 2017.

Finally, after determining the sample size the researcher was use simple random sampling to distribute questionnaire for the respondent.

3.4.3 Sampling Technique

Mugenda&Mugenda (2003) observed that the purpose of sampling is to secure a representative group which enables the researcher to gain information about an entire population when faced with limitations of time and energy.

In this study, the researcher has selected west Addis Ababa district (WAAD) by using purposive sampling method. Stratified sampling technique was applied in order to obtain representative sample respondents. Based on stratified sampling technique branches of CBE are divided into four strata which is Grade one, two, three, and four. From this category; the researcher were select only grade four branches. Thus, out of 68 branches that provide IFB service under WAAD 12 of them are under grade four categories. To make the study manageable and because of resource constraint, among 12 grade four branches providing IFB service under WAAD; 6 (six branches) were selected as a sample branch namely Abakoran, Addisketema, Alembank, Anwarmesgid, Mehالبةbeya and pawulos whose total IFB clients are 17,939.

Thus branches are selected based on the relative size, year of operation of the branches, no of total IFB customers, no of IFB customers visit the branch per day and moreover these branches were pilot branches when CBE launch IFB for the first time.

3.5. Data Collection Instrument

The primary data were collected through personally administered questionnaire in order to get first-hand information from IFB customers.

A five-point Likert scale ranging from (1) “strongly disagree” (2) “disagree” (3) “neutral” (4) “agree” and (5) “strongly agree” were used to measure the perception of service quality in Interest free bank.

In addition, the questionnaire were on service quality dimensions (independent variables) that includes compliance, assurance, reliability, tangibles, empathy and responsiveness whereas customer satisfaction (dependent variable) is tested with these service quality dimensions.

3.7. Method of Data Analysis

The data analysis is converting, transform, and processes all the raw data into useful and valuable information using appropriate technique. Data analysis stages consists procedures which was carried out to summarize and transform the data into useful information (Zikmund, 2010).

In this study the survey questionnaire data was encoded to SPSS version 21. The statistical tools used for this study are descriptive analysis, correlation and regression analysis.

Descriptive statistics method was made based on the results of the tables and figures using mean value. Correlation coefficient was used to determine the strength relationships between interest free banking service quality dimensions (Compliance with Islamic law, Tangibility, reliability, responsiveness, assurance and empathy) and customer satisfaction.

Finally, the regression analysis was done to know how much the independent variable i.e. Compliance to Islamic law, Tangibility, reliability, responsiveness, assurance and empathy influence the dependent variable (customer satisfaction).

3.8 Reliability test

Reliability analysis was computed to test whether the scale used in the study is internally consistent and consistently measures the criterion variable using the reliability procedure in SPSS (version 21.0). From data analysis the cronbach's alpha for this study is 0.970 which is excellent according to the standard set by George and Mallery (2003) and it is over the acceptable limit of >0.70. For all individual dimensions, cronbach's alpha is greater than 0.70, which is shown below, that signifies greater internal consistency between the items and measures the intended dimension of the variables.

Table 3.2: Cronbach’s Alpha Test for Independent Variables

Dimensions	Cronbach's Alpha	N of Items
Compliance to Islamic law	.950	10
Tangibility	.809	4
Reliability	.784	4
Responsiveness	.842	4
Assurance	.863	3
Empathy	.892	4
Over all scale reliability	.970	29

Sources: survey data, 2018 SPSS output

3.9 Ethical Considerations

According to Creswell (2003, p. 64) “As the researchers anticipate data collectors, they need to respect the participants and sites for the research”. During the data collection time the researcher protects rights of the respondents by: When the researcher undertakes the study, name and other identifying information was not used. The questioner explained to the respondent and all respondents were requested politely to participate in the study on voluntarily basis while their information will remain kept confidential.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

This chapter presents the results of the data analysis according to the research methodology discussed in chapter three. The general background of the characteristics of the respondents and a detailed discussion regarding the three specific objectives of the study are also presented.

Descriptive statistics were used for demographic factors also correlation and linear regression analysis were conducted for scale typed questionnaires In order to know the current information of the bank with regard to the factor that influences IFB customer satisfaction. The questionnaires are distributed to the customers of six branches of commercial bank of Ethiopia which are conveniently selected from west Addis district (Abakoran, Alembank, MehalGebeya, Pawlos, Addis Ketema and Anwar Mesgid branches).

To achieve the main objectives of the research a total of 204 questionnaires were prepared and distributed to IFB customers at commercial bank of Ethiopia. Out of these questionnaires, 170 of them were collected with a response rate of 83.3% while the remaining 34(16.7%) questionnaires were not included due to incompleteness of the questionnaire. Accordingly the data collected from the questionnaire is analyzed as follows.

4.1 General Characteristics of Respondents

Part one of the survey questionnaire was designed to identify IFB customer's demographic characteristics and banking service experience. All respondents participated in this study were from Interest free banking service users of the commercial Bank of Ethiopia, Abakoran, Alembank, MehalGebeya, Pawlos, Addis Ketema and Anwar Mesgid branches . Results of the demographic variables and Interest free banking service experiences of the respondents are presented.

Table 4.1: Demographic Characteristic of the Respondents

Parameter		Frequency	Percent	Cumulative Percent
Gender	Male	110	64.7	64.7
	Female	60	35.3	100
	Total	170	100	
Age	18-30	108	63.5	63.5
	31-40	51	30	93.5
	41-50	7	4.1	97.6
	more than 51	4	2.4	100
	Total	170	100	
Education	High school	38	22.4	22.4
	Diploma	31	18.20	40.6
	BA/BSC	95	55.9	96.5
	MA/MSC	6	3.5	100
	PHD	-	-	
	Total	170	100	
Religion followed	Muslim	140	82.4	84.7
	orthodox	24	14	14.1
	protestant	2	1.2	1.2
	catholic	4	2.4	100
	Total	170	100	
Window associated with	IFB	111	65.3	65.3
	conventional	16	9.4	74.7
	Conventional and IFB	43	25.3	100
	Total	170	100	
Year of being IFB customer	less than 1 year	24	14.1	14.1
	between 1 to 3 year	87	51.2	65.3
	betwen 3 to 5 year	51	30	95.3
	more than 5 year	8	4.7	100
	Total	170	100	
IFB product associated with	Wadiyaamana	90	52.9	52.9
	Quard	58	34.1	87.1
	Mudarahah	14	8.2	95.3

Parameter		Frequency	Percent	Cumulative Percent
	Mudarabah-Muday	8	4.7	100
	Total	170	100	

Source: Own Survey 2018

Table 4.1 above shows respondents' profile in this study. It indicates that respondents almost split between males (67.7%) and females (35.3%), suggesting both genders represented in the study shows that majority of respondents who were using IFB are males. With regard to age of respondent from the majority of the respondents (63.5%) were within the age range of 18-30 and (30%) within the age group of 31-40 (7%) of the respondents were within the age group of 41 to 50 years, (2.4%) of the respondents were above 51 years. This result also may indicate the IFB Services given by CBE may be attractive to customers within the age range of 18-30 and 31-40.

With regard to educational level of respondents the highest Percentage, (55.9%) of respondents were first degree holders, 22.4% of Respondents were below grade 12 and those who were college diploma holders took 18.20% of Percentage in this study. 3.5% of the respondents in this study were Masters holders.

Regarding religion followed for the IFB customer most of respondents are categorized under Muslim religion that is 140(82.4%) which shows most of IFB customers are Muslims and the rest 17.6 % indicate the service is provided for non –Muslims also. Regarding to window associate of the customer the majority 111(65.3%) use IFB separate window the 16(9.4%) of the respondents use the conventional bank and remaining 43(25.3%) customers use both conventional and IFB banking service. So the above result shows majority of the respondents prefer IFB separate window service.

Regarding the length of time since each respondent has start using IFB service (30%) of the respondents has opened their IFB account with in the past 3 to 5 years, (51.2%) of the respondents opened their IFB account with in the past 1-3 years, (4.7%) of the respondents opened their account before 5 years, (14.1%) of the respondents has less than one year banking experience with the IFB service.

Finally In order to understand the IFB products (accounts) customers associated with, as shown in the above table majority of respondents (52.9%) are associated with Wadiya Amana account,

(34.1%) are associated with Quard(current account) and the remaining (8.2%) and (4.7%) has Mudarabah and MudarabahMuday account the result shows the bank only work on Amana saving and Quard account so the bank should introduce other products for customer and create awareness about all products (accounts) provided under IFB window for the customers.

4.2 Analysis of Collected Data

4.2.1 Descriptive Analysis of the Dependent and Independent Variables

A descriptive statistics has conducted for the dependent variable (Customer Satisfaction) and independent variables (Compliance, Reliability, Responsiveness, Assurance, Empathy and Tangibility). It includes mean and standard deviation. Mean score was calculated to show the average responses of respondents for each question that was included under each dimension and to reach the grand mean of each dimension. Mean scores 4.51-5.00 excellent or very good, 3.51-4.50good, 2.51-3.50 average or moderate, 1.51-2.50 fair and 1.00-1.50 is poor(poonlar btawee:1987).

Table 4.2: Compliance with Islamic law Dimension

Measurement Item	Mean	Std. Deviation
The bank provide Wadiya Amana based on sharia law and principle	2.93	1.387
The bank provide Quard based on sharia law and principle	3.11	1.271
The bank provide Mudarabah based on sharia law and principle	2.99	1.226
The bank provide Amana women based on sharia law and principle	3.09	1.332
The bank provide Mudarabah- Muday based on sharia law and principle	3.02	1.240
The bank provide IFB related loan without interest	3.12	1.282
The bank provide Mudarabah (investment account) with financial consulting	3.18	1.215
The bank deal with IFB products not prohibited by Islam or halal business	2.87	1.335
The bank asked you in what type of business you engaged in when you open IFB account	3.08	1.305
The bank aware you your money invested on the area permitted by Sharia-law and principle	3.14	1.287
Grand mean	3.053	1.288

Source: survey result (2018)

Compliance to Islamic law and principle is when IFB runs based on strict Sharia compliance procedures, specifically the prohibition of taking or giving interest. (Othman and Owen, 2001)

According to the table 4.2, the highest mean is scored from item seven i.e. The bank provide Mudarabah (investment account) with financial consulting with a mean score of 3.18 followed

by item ten which is The bank aware the money from IFB account invested on the area permitted by Sharia-law and principle with a mean score of 3.14, The bank provide IFB related loan without interest with a mean score of 3.12 and The bank provide Quard based on sharia law and principle with a mean score of 3.11. the organization perform least on item eight which is the bank deal with IFB products not prohibited by Islam or halal business with a mean score of 2.87. In general the grand mean score for compliance to Islamic law and principle dimension is 3.053. Therefore the researcher concludes that, in terms of complying with Islamic law and principle CBE's IFB service quality is not as such satisfactory. The result shows that CBE have to give emphasis for this dimension in order to satisfy its customer.

Table 4.3: Tangibility Dimension

Measurement Item	Mean	Std. Deviation
IFB separate windows are easily identified by their distinct tag from conventional bank	3.71	1.149
The bank has adequate windows to provide IFB service with customer expectation	3.08	1.356
Materials associated with IFB service (such as pamphlets, tag & statements) are visually appealing at the bank	3.29	1.185
IFB reception desk employees are neat appearing and appropriate attire	2.50	1.364
Grand mean	3.145	1.2635

Source: survey result (2018)

Tangibility refers to appearance of physical facilities, equipment, personnel and communication materials. According to the above table the highest mean was 3.71 for the IFB separate windows are easily identified by their distinct tag from conventional bank. The least mean was score from the fourth item which is IFB reception desk employees are neat appearing and appropriate attire 2.50.

As shown in the above table the grand mean for tangibility dimension is 3.145. From the above the researcher concludes that regarding to tangibility IFB customers perceive that quality of service being offered by the organization is moderate.

Table 4.4: Reliability Dimension

Measurement Item	Mean	Std. Deviation
The separate window service for IFB minimize the time spent in the banking service	3.79	1.152
The bank share you its profit/loss gained on investment account (mudarabah) at the agreed fixed time as it promised.	3.25	1.104
The bank provide variety of service in IFB window separately as it promised (front desk, E-banking, ATM)	3.39	1.137
The bank keep IFB records accurately and separately from conventional bank	2.86	1.293
Grand mean	3.3225	1.1715

Source: Survey result (2018)

Reliability refers the ability to perform the promised service dependably and accurately. According to the table 4.4, the highest mean is scored from the first item i.e. The separate window service for IFB minimize the time spent in the banking service with a mean score of 3.79 followed by item three which is The bank provide variety of service in IFB window separately as it promised (front desk, E-banking, ATM) with a mean score of 3.39. the organization perform least on item four which is reliability in performing The bank keep IFB records accurately and separately from conventional bank with a mean score of 2.86. In general the grand mean score for service reliability dimension is 3.3225. Therefore the researcher concludes that, in terms of reliability customers are not satisfied enough. The implication of this study for the management of CBE it is important to identify what gaps are seen regarding the

service provided and to identify what should be improved in order to increase customer satisfaction.

Table 4.5: Responsiveness Dimension

Measurement Item	Mean	Std. Deviation
Employees assigned on IFB separate window respond your request quickly	3.56	1.049
Employees assigned on IFB separate window are always willing to help IFB customers	3.62	1.099
It is easy to get E-payment product quickly for IFB customers	3.40	1.085
when you have a problem using IFB related product, the bank shows a sincere interest to handle it	3.43	1.211
Grand mean	3.5025	1.111

Source: survey result (2018)

The responsiveness dimension involves willingness to help customers and provide prompt services. As shown in the above table 4.5 the grand mean for responsiveness dimension is 3.5025 which is the highest mean as compared to other independent variables. The highest mean of responsiveness attribute of service quality is, Employees assigned on IFB separate window are always willing to help IFB customers with a mean score of 3.62. The second highest mean scored is the first item which refers to Employees assigned on IFB separate window respond customer request quickly with a mean score of 3.56. the least mean score is item three which is It is easy to get E-payment product for IFB customers with a mean score 3.40. To conclude the grand mean of responsiveness dimension shows that IFB customers are satisfied with the responsiveness dimension of the bank and they have a good perception about the responsiveness dimension of the bank.

Table 4.6: Assurance Dimension

Measurement Item	Mean	Std. Deviation
Employees assigned on IFB window have necessary knowledge on IFB products and services	3.08	1.296
The behavior of employees assigned on IFB window instills confidence in you	2.99	1.224
The bank has employees who has detail knowledge about both Islamic religion and IFB to answer your question	2.68	1.285
Grand mean	2.9166	1.2683

Source: survey result (2018)

Assurance dimension refers to the knowledge and courtesy of employees and their ability to inspire trust and confidence including competence, credibility and security.

The above table portrays items that measures assurance. The highest mean score was 3.08 which is assigned to the first item that describes Employees assigned on IFB window have necessary knowledge on IFB products and services to answer customer Question. Whereas, the least mean was scored 2.68 which is assigned to the last item which explain employees has detail knowledge about both Islamic religion and IFB to answer question. Still IFB customer do not have a good perception regarding to assurance dimension of the bank i.e. customers are not confident by IFB separate window employees of the bank and they have doubt about their knowledge related to IFB.

To generalize as shown in above table the grand mean for assurance is 2.9166 which indicate regarding to assurance commercial bank of Ethiopia IFB customers perceive that the quality of service being offered by the organization is moderate.

Table 4.7: Empathy Dimension

Measurement Item	Mean	Std. Deviation
Employees assigned on IFB windows give personal attention to you	3.21	1.255
The bank has operating hour is suitable for IFB customers	3.45	1.207
The bank has your best interests at heart	3.23	1.236
Employees assigned on IFB window understand your specific needs	3.07	1.219
Grand mean	3.24	1.22925

Source: survey result (2018)

The empathy dimension represents the provision of caring and individualized attention to customers including access or approachability and ease of contact, effective communication, and understanding the customers. As clearly seen from the table above, the highest mean for this dimension come from the second indicator that signifies the bank has operating hour suitable for IFB customers with a mean score of 3.45 followed by the bank has best interests at heart to customers with a mean score of 3.23. However the least mean comes from the last item which is the employees assigned on IFB window understand specific needs of customer with a mean score of 3.07.

Table 4.8:Overall satisfaction

	N	Mean	Std. Deviation
	Statistic	Statistic	Statistic
I am satisfied with the IFB service provided by the bank.	170	2.87	1.335
I am satisfied with financial consulting provided on IFB product and service.	170	3.71	1.149
In most ways the Interest free banking service level of the bank close to my expectations	170	3.56	1.049
I am satisfied with the profit rate offered by IFB	170	2.91	1.270
Grand mean		3.26	

Source: Own survey, 2018

According to scholars defined, customer satisfaction in a competitive environment, customer satisfaction is viewed as being a crucial element in the firm's strategy. The firm needs to retain existing customers and target new one. Customers become satisfied if the performance of the good or service is equivalent to, more than expectation. As clearly seen from the table above, the highest mean for this dimension come from the second indicator that signifies IFB customers satisfied with financial consulting provided on IFB product and service with a mean score of 3.71 followed by the CBE Interest free banking service level of the bank close to IFB customers expectations with a mean score of 3.56. However the least mean comes from the first and last item which are customers are satisfied with the IFB service provided by the bank with a mean score of 2.87 and customers satisfied with the profit rate offered by IFB with a mean score of 2.91.

As a conclusion, the grand mean score of this construct based on customers view is 3.26this shows regarding to overall customer satisfaction customers have moderate perception about satisfaction which means the customers are still not satisfied enough by IFB service provided by the bank.

4.2.2 Correlation Analysis

According to Shukran (2003), the relationship is expressed by value within the range -1.00 to +1.00 as Pearson product-moment indicates. Pearson correlation is +1 in the case of a perfect increasing (positive) linear relationship (correlation), -1 and 1 in all other case indicating the degree of linear dependency between variables.

A correlation analysis with Pearson's correlation coefficient (r) was conducted on all variables in the study to explore the relationships between modified service quality dimensions and customer satisfaction. To interpret the strengths of relationships between variables, the guidelines suggested by field (2005) were followed, mainly for their simplicity. His classification of the correlation coefficient (r) is as follows: 0.1– 0.29 is weak; 0.3 – 0.49 is moderate; and ≥ 0.5 is strong. The relationship between the six service quality dimension i.e. compliance, assurance, and reliability, tangibles, empathy and responsiveness and overall customer satisfaction is presented in table 4.9

Table 4.9: Analysis of Correlation

		Compliance	Tangibility	reliability	Responsiveness	Assurance	Empathy	Satisfaction
compliance	Pearson Correlation	1	.721**	.743**	.681**	.718**	.717**	.808**
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.000
	N	170	170	170	170	170	170	170
Tangibility	Pearson Correlation	.721**	1	.715**	.800**	.776**	.764**	.841**
	Sig. (2-tailed)	.000		.000	.000	.000	.000	.000
	N	170	170	170	170	170	170	170
Reliability	Pearson Correlation	.743**	.815**	1	.794**	.726**	.745**	.835**
	Sig. (2-tailed)	.000	.000		.000	.000	.000	.000
	N	170	170	170	170	170	170	170
Responsiveness	Pearson Correlation	.681**	.800**	.794**	1	.784**	.779**	.829**
	Sig. (2-tailed)	.000	.000	.000		.000	.000	.000
	N	170	170	170	170	170	170	170
assurance	Pearson Correlation	.718**	.776**	.726**	.784**	1	.768**	.782**
	Sig. (2-tailed)	.000	.000	.000	.000		.000	.000
	N	170	170	170	170	170	170	170
empathy	Pearson Correlation	.717**	.764**	.745**	.779**	.768**	1	.812**
	Sig. (2-tailed)	.000	.000	.000	.000	.000		.000
	N	170	170	170	170	170	170	170
SATSFAC TION	Pearson Correlation	.808**	.841**	.835**	.829**	.782**	.812**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	
	N	170	170	170	170	170	170	170

*. Correlation is significant at the 0.05 level (2-tailed).

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

Table 4.9 shows that the degree of correlation or the relationship among variables. The Correlation coefficient between compliance and customer satisfaction is ($r=0.808$) with ($P<0.01$) level of significance approves a positive relationship between them. The correlation coefficient between Tangibility and customer satisfaction is also positively related ($r=0.841$) with ($P<0.01$). According to the correlation result Reliability and customer satisfaction has also positive related ($r=0.835$) with ($P<0.01$) level of significance.

The correlation coefficient between responsiveness and customer satisfaction is also positively related ($r=0.829$) with ($P<0.01$) level of significance this is because the IFB separate window employees and the bank are willing to support IFB customers. Assurance and customer satisfaction are also positively related ($r=0.782$) with ($P<0.01$) level of significance this means the customers of the bank feel safe with IFB service provided by the bank.

The sixth explanatory variable is Empathy which is also positively related to customer satisfaction having a correlation ($r=0.812$) with ($P<0.01$) level of significance which means Employees give personal attention to IFB customer which enhances the customer satisfaction with IFB service provided by CBE.

According to table 4.9, Pearson correlation matrix shows almost all variables have strong association with overall customer satisfaction. According to field (2005), Pearson correlation coefficient value from ≥ 0.05 shows that variables are strongly correlated. So based on the above result variables have positive relation that supports the work of Shanka (2012) the study found that there is a positive correlation between service quality dimensions and satisfaction also According to Yusuf (2017) finding the six Service Quality variables are significantly related to customer satisfaction in Islamic banking.

Based on the above finding the correlation was positive, service quality and customer satisfaction is positively related, which means the better service quality was the higher customer satisfaction. Accordingly, the most important service quality dimension that affects customer satisfaction is Tangibility, which goes to prove that Tangibility perceived as a dominant service quality followed by reliability.

4.2.3 Regression Analysis

Regression analysis helps to understand how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed. In this study regression analysis is used to identify the effect of service quality dimension on customer satisfaction thus it answers the third research question.

4.2.3.1 Assessment of Multicollinearity

Multicollinearity exists when there are strong correlations among the predictors and the existence of r value greater than 0.80, tolerance value below 0.10 and Variance Inflation factor (VIF) greater than 10 in the correlation matrix are the causes for the multicollinearity existence (Field, 2009; Myers, 1990; Pallant, 2007). Tolerance is a statistics used to indicate the variability of the specified independent variable that is not explained by the other independent variables in the model and the model suffers multi-collinearity problem only if the variables are correlated at equal to or greater than 0.80.

Table 4.10: Collinearity Statistics

Model		Coefficients ^a	
		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Compliance	.359	2.789
	Tangibility	.236	4.240
	Reliability	.249	4.020
	Responsiveness	.243	4.116
	Assurance	.280	3.574
	Empathy	.288	3.470

Source: Survey data, 2018 SPSS output

As shown in the Collinearity table, the tolerance levels for all variables are greater than 0.10 and the VIF value are less than 10. It indicates that there was no Multicollinearity problem that alters the analysis of the findings; rather it leads to the acceptance of r value, tolerance and VIF values.

4.2.3.2 Autocorrelation

The study opted to Durbin Watson which the test serial correlation is problematic to linear panel data models because its presence renders the standard errors biased as well as making the estimated regression coefficient consistent but insufficient (Drukker, 2003). Therefore, to detect the presence of autocorrelation, a Durbin-Watson statistic ranges in value from 0 to 4. A value near to 2 indicates non-autocorrelation; a value toward 0 indicates positive autocorrelation; a value toward 4 indicates negative autocorrelation and the Durbin Watson test was carried out to detect the presence of autocorrelation. Based on the test the Durbin Watson test for this study was 1.982 as it is near to 2 it indicate non-autocorrelation.

4.2.3.3 Linearity test

Linearity refers to the degree to which the change in the independent variable is related to change in the independent variables. Normal p-p plot shows that the point generally flow the normal line which show there is no strong deviation. It indicates that the residual are normally distributed in which inference made about the population parameters from the sample statistic tend to be valid.

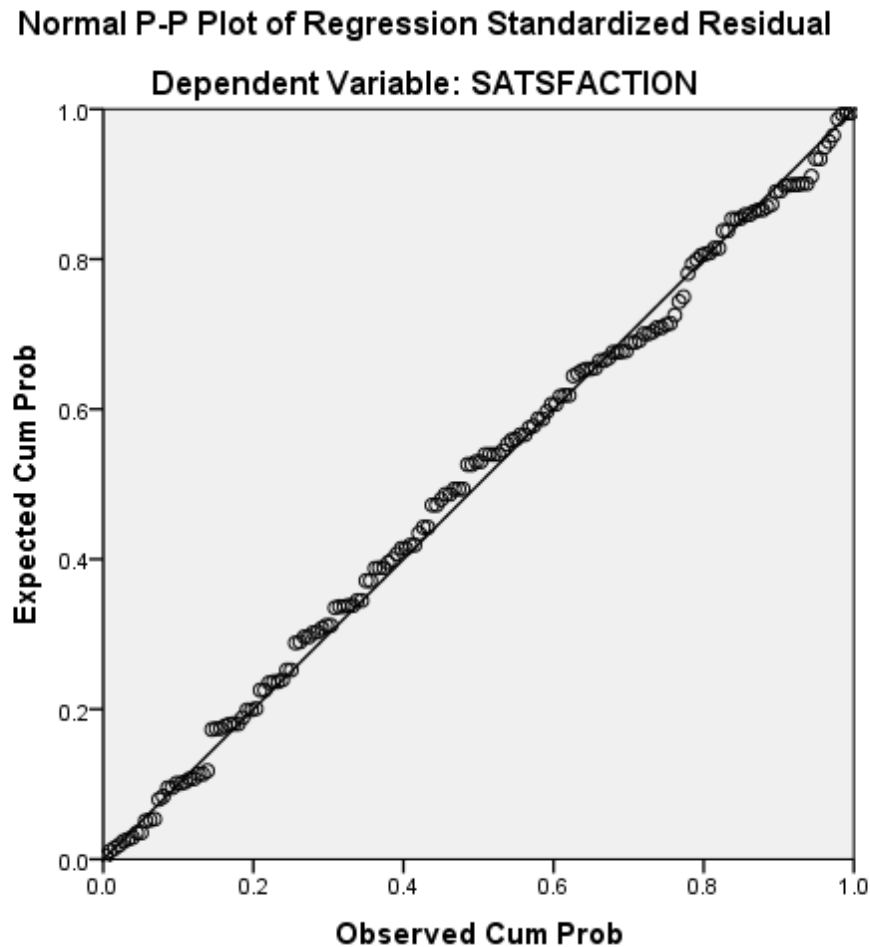


Figure 4.1:Normal p-p plots

The straight line in the above plot presents a normal distribution of the residuals. Therefore in a perfect normally distributed data set, all points will lie on the line.

4.2.3.4 ANOVA Test

ANOVA means analysis of variances. The one-way ANOVA procedure produces a one-way analysis of variance for quantitative dependent variable by a single factor independent variable. ANOVA test compares the means for the different variable. In addition to determining that differences exist among the means, one way ANOVA can also be used to calculate which means differ. The cut of point which was considered for being significant was 5%. This determined the importance of each variable over the other basing on the model developed.

Table 4.11: ANOVA Test

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2017.967	6	336.328	151.130	.000 ^b
	Residual	362.745	163	2.225		
	Total	2380.712	169			

Source: Survey data, 2018 SPSS output

a. Dependent Variable: satisfaction

b. Predictors: (Constant), empathy, compliance, responsiveness, assurance, reliability, tangibility

The ANOVA test shows the significance of the model by the value of F-statistics ($P = .000$) and $F = 151.130$ which implies that there were strong relationship between the predictors and the outcomes of the regression variables and are at best fit the model to predict the effect of IFB service quality. And the result shows that all explanatory variables jointly are statistically significant.

4.2.3.5 Model Summery

Table 4.12: Model Summary of Service Quality Dimensions and Customer Satisfaction

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.921 ^a	.848	.842	1.492	1.982

- a. Predictors: (Constant), empathy, compliance, responsiveness, assurance, reliability, tangibility
- b. Dependent Variable: SATSFACTION

The above table 4.12 presents the coefficient of determination (R-squared) indicates the proportionate amount of variation in the response variable (customer satisfaction) explained by the independent variable in the linear regression model. It has been seen that R value is 0.921. Therefore, R value (.921) for the overall service quality dimensions namely compliance with Islamic law tangibility, reliability, responsiveness, assurance and empathy. We suggested that there is a strong effect of these variables on customer satisfaction. It can also observe that the coefficient of determination i.e. the R-square (R²) value is 0.848. This implies that 84.8% variation of the dependent variable (Average Customer Satisfaction) is due to the control variables and independent variables (Service quality)the rest 15.2% are other variables not included in this study.

Table 4.13: Coefficient for Service Quality Dimension and Customer Satisfaction

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.479	.481		.996	.321
Tangibility	.193	.058	.208	3.301	.001
Compliance	.090	.018	.255	5.000	.000
Reliability	.179	.063	.175	2.854	.005
Responsiveness	.209	.064	.204	3.293	.001
Assurance	.031	.064	.028	.479	.633
Empathy	.140	.050	.159	2.800	.006

Source: Survey data, 2018 SPSS output

a. Dependent Variable: satisfaction

Regression Equation

$$Y = a + bX1 + bX2 + bX3 + bX4...$$

$$CS = .479 + .090COM + 0.193TAN + 0.1794REL + 0.209RES + 0.140EMP + 0.31ASS$$

Where,

CS = Customer satisfaction, COM= Compliance with Islamic law, TAN = Tangibility, REL = Reliability, RES = Responsiveness, EMP = Empathy, ASS = Assurance

The above table shows the standardize beta coefficient, which tell us the unique contribution of each factor to the variance. A high beta value and a small p value (<.05) indicate the predictor variable has made a significance statistical contribution to the model. On the other hand, a small beta value and a high p value (p >.05) indicate the predictor variable has little or no significant contribution to the model. (Ggorge et al., (2003)

The beta (β) sign also shows the +ve or -ve effect of the independent variables coefficient over the dependent variable. And as shown in table 4.13 above, beta sign of all the independent variables shows the positive effect of the predicting dependent variable. That means, any increase in the independent variables lead to increase in the dependent variable. This finding is consistent with most of the previous studies that are (Mihret and Yismaw, 2007; Cohen & Sayag,

2010; Arena and Azzone, 2009; Al-Twaijry et al. 2004).

Moving on the beta value table of independent variable (tangibility) is .208 with t value 3.301 and significant level of 0.001. The beta value of independent variable (compliance) is .255 with t value 5.000 and significant level of 0.000. The beta value independent variable (Reliability) is .175 with t value 2.854 and significant level of 0.005. The beta value independent variable (Responsiveness) is .204 with t value 3.293 and significant level of 0.001. The beta value independent variable (empathy) is .159 with t value 2.800 and significant level of 0.006. This beta value indicates the amount of change in the dependent variable (customer satisfaction) due to changes in independent variables (Tangibility, compliance, reliability, responsiveness, and empathy).

Therefore, based on the statistical significances of the independent variable over the dependent variable at 5% level of significance, only five independent variables (Tangibility, compliance, responsiveness, empathy and Reliability) are significantly contributed for IFB customer satisfaction at ($P < 0.05$) level of confidence.

Thus, this implies the Tangibility, Compliance, responsiveness, empathy and reliability are the most important determinants of customer satisfaction in which the bank should give more emphasis. Besides this, even if the relationship is positive the remaining one independent variables Assurance have not significant contribution for the predicted dependent variable customer satisfaction because it has a sig. value of greater than 5%. The variable with the level of significance (sig) value less than 5% could make a significance unique contribution to the predicted value of the dependent variable, beyond this level of sig. the variable are not making a significance contribution for the prediction of the dependent variable (Pallant, 2007; Somekh and Lewinn, 2005).

4.2.4 Hypothesis testing

The result of this study indicates that except assurance, all dimensions of service quality have a positive and significant effect on IFB customer satisfaction. Moreover, from the findings of this study, researcher found out that not all of the service Quality dimensions has positive and significant effects on IFB customer satisfaction. Out of the six modified service quality dimensions five dimensions (tangibility, reliability, compliance, empathy and responsiveness) have positive and significant effects on customer satisfaction. On the other hand, assurance has no significant effect on IFB customer satisfaction.

Hypothesis testing was based on standardized coefficients beta with 95% confidence level to test whether the hypotheses are rejected or not.

Hypothesis 1

Ho1: Reliability dimension of service quality is positively related and has significant impact on IFB customer satisfaction.

Ha1: Reliability dimension of service quality is positively related and has significant impact on IFB customer satisfaction

Reliability deals with accuracy and appropriateness in the service provide. The results of multiple regressions, as presented in table 4.13.above, revealed that reliability have a positive and significant effect on IFB customer satisfaction with a standardize coefficient beta value, (.175), at 95% confidence level. Therefore, the researcher may accept the null hypothesis. Since, reliability has a positive and significant effect on customer satisfaction.

Hypothesis 2

Ho2: Responsiveness dimension of service quality is positively related and has significant impact on IFB customer satisfaction.

Ha2: Responsiveness dimension of service quality is positively related and has significant impact on IFB customer satisfaction.

Responsiveness deals with willingness to help customers and to provide prompt service. The results of multiple regressions, as presented in table 4.13.above, revealed that responsiveness have a positive and significant effect on customer satisfaction with a standardize coefficient beta value, (.204), at 95% confidence level. Therefore, the researcher may accept the null hypothesis. Since, responsiveness has a positive and significant effect on customer satisfaction.

Hypothesis 3

Ho3: Assurance dimension of service quality is positively related and has significant impact on IFB customer satisfaction.

Ha3: There is in significant relationship between assurance and IFB customer satisfaction in IFB service

Assurance is knowledge and courtesy of employees and their ability to convey trust and confidence. The results of multiple regressions, as presented in table 4.13.above, revealed that assurance has a relationship with IFB customer satisfaction with a standardize coefficient beta value (.028), at 95% confidence level. But the result indicates that insignificant effect on IFB customer satisfaction. Therefore, the researcher may reject null hypothesis. Since, assurance has insignificant effect on customer satisfaction. But this does not mean that there is no relationship between IFB customer satisfaction and assurance.

Hypothesis 4

Ho4: Empathy dimension of service quality is positively related and has significant impact on IFB customer satisfaction.

Ha4: Empathy dimension of service quality is positively related and has significant impact on IFB customer satisfaction.

Empathy is carrying individualized attention the firm provides its customers. The results of multiple regressions, as presented in table 4.13.above, revealed that empathy have a positive and

significant effect on IFB customer satisfaction with a standardize coefficient beta value, (.159), at 95% confidence level. Therefore, the researcher may accept the null hypothesis. Since, empathy has a positive and significant effect on IFB customer satisfaction.

Hypothesis 5

Ho5: Tangibility dimension of service quality is positively related and has significant impact on IFB customer satisfaction.

Ha5: Tangibility dimension of service quality is positively related and has significant impact on IFB customer satisfaction

Tangible is appearance of physical facilities, equipment, personal, and communication materials. The results of multiple regressions, as presented in table 4.13.above, revealed that tangibility have a positive and significant effect on IFB customer satisfaction with a standardize coefficient beta value, (.208), at 95% confidence level. Therefore, the researcher may accept the null hypothesis. Since, tangibly have a positive and significant effect on IFB customer satisfaction.

Hypothesis 6

Ho6: Compliance to Islamic law dimension of service quality is positively related and has significant impact on IFB customer satisfaction.

Ha6: Compliance to Islamic law dimension of service quality is positively related and has significant impact on IFB customer satisfaction.

Compliance to Islamic law and principle is providing bank products based on strict Shariah compliance procedures, specifically the prohibition of taking or giving interest. The results of multiple regressions, as presented in table 4.13.above, revealed that compliance to Islamic law have a positive and significant effect on IFB customer satisfaction with a standardize coefficient beta value, (.255), at 95% confidence level. Therefore, the researcher may accept the null hypothesis. Since, compliance has a positive and significant effect on IFB customer satisfaction.

CHAPTER FIVE

FINDINGS, CONCLUSION AND RECOMMENDATION

The main aim of this study was to examine the effects of Interest free banking service quality dimensions on customer's satisfaction in six selected branches of west Addis district (Abakoran, Alembank, MehalGebeya, Pawlos, Addisketema and Anwarmesgidbranches)of the CBE.

To accomplish the study objective the researcher uses the Modified SERVQUAL models that are compliance with Islamic law, tangibility, reliability, responsiveness, assurance and empathy.

5.1 Summary of Findings

The study examined the effect of service quality on satisfaction of IFB customers of CBE. To do this, the study use Modified SERVQUAL measurement dimensions comprising of six dimensions such as: compliance, assurance, reliability, tangibles, empathy and responsiveness. Compliance dimension which is further modified and adapted by Otman and Owen (2001, 2002).

On this study, all variables used to find the most influential factor of customer satisfaction are stands on the mean of different items. for example the independent variables of compliance with Islamic law dimension stands with the mean of its ten item, tangibility four item, reliability four item, responsiveness four item, assurance three item and empathy is also stands with four items. On the other hand, the dependent variable of service satisfaction is stands with its four items.

The results of the descriptive statistical analysis indicate that customers were have a good perception with, from the six service quality dimensions, closely the maximum the mean score is for responsiveness dimension it is the most dominant service quality dimension and evident to a considerable extent, followed by reliability.

The correlation result shows that there is positive and significant relationship between compliance, tangibility, reliability, responsiveness, assurance, and empathy and customer satisfaction. The finding also indicates that the highest relationship was found between Tangibility and customer Satisfaction, followed by reliability while the lowest relationship was found between Assurance and customer satisfaction.

The multiple regression results show that all the independent variables show the positive effect

of the predicting dependent variable dimensions. But based on the statistical significances of the independent variable over the dependent variable at 5% level of significance, five independent variables (Tangibility, compliance, responsiveness, empathy and Reliability) are significantly contributed for customer satisfaction at ($P < 0.05$) level of confidence so this variables are the most important determinants of customer satisfaction.

Finally, the results indicate that all the service quality dimensions investigated had significant effect on customers' satisfaction of IFB, but the service quality dimensions of Tangibility, responsiveness, reliability and compliance respectively are impacting more on IFB customer's satisfaction. From the R square value it is depicted that 84.8% of variation in customer satisfaction is explained by the service quality dimensions.

The findings of the current work are supported by the findings of a number of studies in this area. For instance, the study's results are in line with the results of the study of Van, D., & Lee, P. (2012). which posit that service quality is significantly correlated with customer satisfaction in the retail banking sector in Vietnam and the study of El Saghier ,(2013) that discovered that service quality variables of reliability, responsiveness, empathy and assurance influence customers' evaluation of service quality of banking services in Egypt. Also the work of Shanka, (2012) examined the quality of bank's service, satisfaction and loyalty of customers of Ethiopian Banking Sector. The study found that there is a positive correlation between service quality dimensions and satisfaction of CBE IFB customers.

5.2 Conclusion

As many industry sectors mature, competitive advantage through high quality service is an increasingly important weapon in business survival. Quality and customer satisfaction have long been recognized as playing a crucial role for success and survival in today's competitive market. Increasing competition is forcing businesses to pay much more attention to satisfying customer's needs. The major objective of this study was to examine the effect of interest free service quality on customer satisfaction in commercial bank of Ethiopia.

The finding indicate that customers satisfaction vary according to the nature of service. The

computed mean scores of Modified SERVQUAL dimensions helps to measure the perceived service quality of the organization. The result of the descriptive analysis shows that responsiveness is the most dominant dimension followed by reliability.

The implication of this conclusion is that, the study result provides useful insight to assist management of banking institutions who might deliver the interest free bank being interested in enhancing their organizational performance through customer satisfaction with governed by the principles of Sharia Law that requires not charge interest and avoid any unethical practices in achieving its goals. Precisely, bank managers who are desire improved customer satisfaction or need to resolve their firm's negative performance.

The correlation result shows that all service quality dimensions (compliance, tangibility, assurance, empathy, responsiveness and reliability) are positively and significantly related with customer satisfaction. And the most important service quality dimension that affects customer satisfaction is Tangibility, which goes to prove that Tangibility perceived as a dominant service quality followed by reliability.

Furthermore, the finding from the regression result indicates all the service quality dimensions have a positive impact on customer satisfaction. But based on the statistical significances of the independent variable over the dependent variable five variables (compliance, tangibility, responsiveness, empathy and reliability) are the dominant service quality dimension which affects customer satisfaction positively and significantly and they are the most important determinants of customer satisfaction in which the bank management should give more emphasis in order to sustain IFB customer satisfaction.

5.3 Recommendation

This study examined the effects of Interest free banking service quality on customer satisfaction in Abakoran, Alembank, MehalGebeya, Pawlos, Addis Ketema and Anwar Mesgid branches of the CBE. Based on the conclusions reached, the following recommendations forwarded focusing on issues which may have managerial implications.

The intangibility nature of banking service makes the service quality highly performance based. Therefore, to make the service appealing to customers, all branches better focus on improving their service package. The service package should also be appropriately communicated to target customers, taking in to consideration the interests of frequent service users. Furthermore use of materials that promote IFB and having adequate number of windows would also help.

Even if responsiveness gets the highest satisfaction from the other dimension in order to sustain customer satisfaction, Commercial Bank of Ethiopia Employees should have willingness and readiness to help IFB customers. The CBE should give trainings to its employees on how to handle customers inquire, problem and overall customer service

Compliance dimension of the modified service quality have most important factors influencing interest free banking customer satisfaction. But in the finding customers are less satisfied by this dimension compared to other dimensions. So CBE should focus on this dimension properly projecting its product line such as interest free-based products, profit and loss sharing investments windows and religion oriented operations to satisfy their actual and potential customers in every dimension of service quality.

Regarding to tangibility CBE should make IFB separate windows easily identified by their distinct tag from conventional bank. The CBE must add adequate windows to provide IFB service with customer expectation. And also CBE has to make Materials associated with IFB service (such as pamphlets, tag & statements) visually appealing and IFB reception desk employees are neat appearing and appropriate attire in order to satisfy IFB customers.

Finally the researcher recommends that In order to create the appropriate knowledgeable staff, CBE should design training programs in the field of interest free banking, and marketing,

communication, Internal marketing to their employees is of high priority in order to give up to dated service and to answer questions raised by customers in connection with IFB.

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Appendix I
Appendix 1 – Questionnaire
St.Mary’s University
School of graduate studies
Department of Business Administration (General)

A survey questionnaire on “The Effects of Interest free banking Service Quality on Customer Satisfaction in the case of commercial bank of Ethiopia.

Dear Sir/Madam

This survey is conducted as a partial fulfillment of the award of Master of Business Administration at St. Mary’s University. The general purpose of the study is to investigate the Effects of Interest Free banking service quality on customer satisfaction in commercial bank of Ethiopia on selected branches.

I kindly request your participation in this survey by filling up this questionnaire. I would also like to inform you that any of your responses will be maintained confidentially. And will never be used for any purpose other than the study.

Senayit Getachew
Tel. No. 0913674334

Thank you very much in advance for your cooperation

.General Instruction

- ✓ Do not write your name in any part of the questionnaire
- ✓ Your frank response is vital for the success of the study
- ✓ Please put a “□” mark on your choices

PART ONE- GENERAL INFORMATION

1. Gender Male Female
2. Age 18-30 31-40 41-50 ABOVE 51
3. The highest level of education you achieved?
 High School Diploma BA/BSC MA/MSC PHD
4. Which religion does you belongs to
 Orthodox Catholic Muslim Protestant
5. Which window are you associated with?
 Interest free Conventional Both Conventional Bank and IFB
6. How long is it since you have started using Interest free banking?
 Less than 1 year between (1-3) years between (3-5) years above 5 years
7. Which IFB account (product) you are associated?
 Wadiya Amana (saving) Mudaraba (investment account)
 Quard (current account) WadiyaMuday
 MudarabaMuday Amana Women

Part II- The following statements relate to your feelings about the banks Interest Free Banking service. Please give your score based on service you received at the bank.

S.No		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
	1. COMPLIANCE with Islamic law					
1	The bank provide Wadiya Amana based on Sharia law and principle					
2	The bank provide Quard based on Sharia law and principle					
3	The bank provide Mudaraba based on Sharia law and principle					

S.No		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
4	The bank provide Amana women based on Sharia law and principle					
5	The bank provide Mudaraba –Muday based on Sharia law and principle					
6	The bank provide IFB related loan without interest					
7	The bank provide profit sharing investment (Mudaraba) product with financial consulting					
8	The bank deal with IFB products not prohibited by Islam or halal business					
9	The bank asked you in what type of business you engaged in when you open IFB account					
10	The bank aware you the your money invested on the area which are permitted by Sharia-law and principle					
	2. TANGIBILITY					
11	IFB separate windows are easily identified by their distinct tag from conventional bank					
12	The bank has adequate windows to provide IFB service with customer expectation					
13	Materials associated with IFB service (such as pamphlets, tag & statements) are visually appealing at the bank					
14	Interest free reception desk employees are neat appearing and appropriate attire					
	3. RELIABILITY					
15	The separate window service for IFB minimizes the time spent in banking service					
16	The bank shares you its profit/loss gained on investment account (Mudaraba) at the agreed fixed time.					

S.No		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
17	The bank provide varieties of services in IFB window separately as it promised (front desk, E-Banking, ATM)					
18	The bank keep IFB records accurately and separately from conventional bank					
	4. RESPONSIVENESS					
19	Employees assigned on IFB separate windows respond your request quickly					
20	Employees assigned on IFB separate window are always willing to help IFB Customers					
21	It is easy to get E-payment products for IFB customers					
22	When you have a problem using IFB related product, the bank shows a sincere interest to handle the problem					
	5. ASSURANCE					
23	Employees assigned on IFB separate window have necessary knowledge on IFB products and service to answer customer question					
24	Employees assigned on IFB separate window are consistently polite and respectful					
25	The bank has employees who has detail knowledge about both Islamic religion and IFB to answer your question					
	6. EMPATHY					
26	Employees assigned on IFB separate windows give personal attention to customer					
27	The bank working hour is suitable for IFB customers					
28	The bank has your best interests at heart					
29	Employees assigned on IFB separate windows of the bank understand your specific needs					
	7. CUSTOMER SATSFACTION					

S.No		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
30	I am satisfied with IFB service provided by the bank					
31	I am satisfied with financial consulting provided on IFB product and service					
32	I am satisfied with profit rate offered on IFB					
33	I am satisfied with Interest free banking service of the bank than conventional banking					

